CHALLENGE

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Challenge

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letters TO THE EDITOR

Challenge invites your comments. Address letters to Challenge, 475 Fifth Avenue, New York 17, N. Y.

Small-town ruminator

•As a small town ruminator, it seems to me the method adopted to refund the great amount of public debt that will soon fall due will have a vital bearing on our economy.

There are many far better qualified than I to suggest plans, and I suggest none, as I see no place where the money can be found except to start the printing presses running again. Doubling the price of gold might prevent half our stock being claimed. Constant depreciation of the purchasing power of money makes long-time fixed interest and principal obligations unattractive.

Increasing minimum wages and authorizing 30 billion dollars for road expansion only creates added purchasing power and demand for services and materials.

Business recessions can be avoided by undertaking self-liquidating projects in times of depression. Money borrowed to finance such projects has never been considered as a public debt if the holders of such securities must look to revenues of such projects for payment.

[Randolph W.] Burgess, pinch-hitting for National City [Bank of New York] by increasing interest rates, delivered the goods, as the bank can make far more money—if consumer resistance or plain inability to borrow does not result. The way to prevent inflation is to decrease spending, and wise management defers spending when wages and materials are at a peak.

CARROLL DUNSCOMBE

Stuart, Fla.

Bureaucrats and nonessentials

•I look forward with interest to receiving your magazine. The March issue alone, dealing with taxation, proved disappointing. One gets the impression you tend to favor taxes and spenders. While I presume you have the privilege of presenting one side of a lively issue, I prefer to get both sides of the story. However, many of us can get the other side of the tax issue elsewhere.

On page 5 [*A personal note*] of the June-July issue you say, "Too many municipal and state services have been left unattended for too long; we cannot shut our eyes to them forever."

I feel I should counter that statement by saying many projects undertaken are neither needed nor desired by the public, and many are duplications of facilities adequately

provided by private organizations. Contractors, politicians and special pleaders are experts at creating a crisis where none previously existed. It seems that every time there is a heavy dew someone yells for a new flood control dam.

Many of us are still old-fashioned enough to prefer to spend our money as we see fit rather than give it to the bureaucrats to toss around on nonessentials.

CHARLES E. GREEN
Greenwich, Conn.

Break up the Yankees?

•I have read the fine article, "Hits, Runs and Dollars," by Murray Polner [CHALLENGE, May 1957].

I am of the impression that it is practically impossible for 25 baseball players, picked from hundreds of thousands to be that much better than 175 other baseball players, also selected from hundreds of thousands.

Through the course of years the skill and ability of hundreds of players should average out and the laws of chance should prevent the New York Yankees from winning as consistently as they have been.

Since this does not happen, it is only fair to assume that there is an influence at work which prevents it. This influence, in my opinion, is that of the umpires and the league which controls the umpires. They know on which side their bread is buttered—the New York Metropolitan area which encompasses 15 million people.

Other things being equal, the throwing of 20 games by close calls in favor of one team would be sufficient to decide a pennant race.

I therefore disagree that a Supreme Court ruling is going to alter the picture. The game is a business, cut and dried, and where the most money is (New York metropolitan district) there you will find a consistent pennant winner because the market demands it.

NICHOLAS URDA
Passaic, N. J.

On the right track

•Mr. Babian is on the right track when he questions "standard of living" as he did in CHALLENGE for April 1957. However, "level" does not come over well. It seems to imply leveling down.

What would you think of "scale of living"? It could be what one actually has, realizes or enjoys. "Standard" could then be left to appetites, aspirations, hopes, concepts or other nebulous implications of potentiality not yet collected.

MARK M. JONES
Princeton, N. J.

Request for information

•Please give names and addresses of manufacturers and save a lot of correspondence and duplication.

WILLIAM MORRIS
Saranac Lake, N. Y.

It is not a policy of CHALLENGE *to publish names and addresses of manufacturers represented by products described in our "Dept. of Better Mousetraps." Such a practice would be tantamount to advertising. We do not sell advertising space in* CHALLENGE, *and thus, without a contract or similar understanding, we would easily run the danger of misrepresentation, not to mention the lack of reward in "free advertising."*

All requests for additional information on items appearing in "Mousetraps" are answered promptly on the day they are received.—Ed.

a personal note

from the editor

American economic history and its place in world affairs

THIS ISSUE of CHALLENGE carries on page 38 the first of a new series of articles which will trace the origins, growth and evolution of the American economy. This is not an easy task. Talking about the history of one's own is never easy, particularly when one hopes to be objective. There are shortcomings and failures to be discussed, as well as genuine achievements and faith-inspiring strength.

What is the point? Why do something which has been done many times before? We think we have two very good reasons. First, while excellent economic histories of the United States appear at frequent enough intervals, such works are customarily meant to be read only by students and scholars of economics and history—a group which is definitely in the minority in this country and elsewhere. A knowledgeable minority does not constitute the kind of bedrock support on which this republic must stand. Our hope is that the CHALLENGE series will help to bring American economic history into the public domain.

Secondly, times change, and it becomes necessary to find new approaches to old tasks. During the past few years changes have been extraordinarily rapid. The American economy has assumed a place in world affairs which Americans have not had to consider before. Histories of the American economy have not been written in this context. We hope that the series in CHALLENGE will do just that.

In preparing these articles we have worked with a set of assumptions that we consider to have the validity of fact. The first and most important of these is that the conditions under which a man makes a living determine the pattern of his entire existence. Economic survival never was and never can be an exclusive function. Since man must eat to survive, the terms of his economic contract shape the course and countenance of his life. It is impossible to be a slave worker *and* a free man. It is equally impossible to be a free worker *and* a voiceless citizen. Man does not survive by bread alone, but how he gets that bread is a prime clue to the conditions of his survival.

Second, the Bolshevik revolution in Russia came to a close a long time ago and now has organized a vast area of the world into a bureaucratic force that actually functions without fulfilling any of the promises of the revolution. Out of the Kremlin has spread the Cult of Industrialization with which disciplined minority power groups have regimented great masses of peoples. This rising industrialization already packs a punch which we dare not underestimate. Khrushchev has boasted that history is on his side. What he is saying is that eventually we shall be destroyed. This potent force unleashed by the Bolsheviks is now more consolidated at home than ever before. It will not crumble from its own weight unless the people themselves see the evil in the Cult of Industrialization—which has benefited no one but the elite group of bureaucrats, and which never can do better.

Third, there is an intellectual self-consciousness among people outside the Iron Curtain because Western historians and philosophers like Spengler and Toynbee have pronounced the coming decline of the West. They were speaking of values which seemed important to their times and circumstances; and some of these values have, indeed, declined. But this does not mean the East will surely engulf the West. A new balance of forces can emerge. The power of the Western world has shifted to the United States, and from here there will emanate a strength that will transcend nineteenth century weaknesses and preserve for the entire world the Western concept of individual entity within the organized group. This is the mission of American economic history. We have demonstrated that it is possible to organize national resources, manage industries, preserve social consciousness and spread the benefits of material improvement without destroying a man's potential to live his life the way he wants it. We have progressed imperfectly, but the progress is undeniable. Khrushchev wants to catch up to the United States, by his own admission. If he ever does catch up, who will be benefited? His faceless system, or the individual whose existence he denies?

The world never before has had an issue the resolution of which depends so much upon the judgment of individual human beings. To emerge as free men from this struggle, we must first fully understand the nature of the system which permits us to survive and progress as individuals. Only then can we convince men and women behind the Iron Curtain of the value of the one thing that their system can never give them: the satisfaction of being worth something as individuals in the scale of human affairs.—H.B.

Challenge Notes

Some negative thoughts on "progress without risk"

THE ENDING of summer and the arrival of fall is no doubt responsible for some rather somber thoughts about certain trends in contemporary economic life. Believing as we do in the power of negative thinking—when it leads to positive remedies—we should like to pass these thoughts along for what they are worth.

Our first "negative" thought is occasioned by a development which Dr. William C. Freund has aptly called "Progress Without Risk" *(see page 25)*. Dr. Freund is here concerned with the incontrovertible fact that most important innovations are today made in the laboratories of our large corporations. Only these companies, in many instances, have the financial resources to underwrite risky research development programs.

Yet it is precisely these companies which offer most of the "blue-chip" stocks—high-priced, high-quality issues that offer maximum security to the investor—floated on our capital markets.

Indeed, a good case can be made for the proposition that today's investor in "safe," and high-yield General Motors or Du Pont stock is, in fact, making a bigger contribution to industrial innovation and progress than the man who risks his fortune on highly speculative offerings. From the investor's point of view, it must sometimes appear as if industrial progress has been completely divorced from investment risks. In any case, the magnificent achievements of American "big business" have (in recent years, at any rate) been financed with remarkably little *investor* risk.

But it may well be asked: What is so "negative" about this situation? Why should anyone be disturbed over the fact that industrial progress no longer requires

the kind of "winner-take-all" (and "loser-lose-all") gambles that characterized the America our grandfathers knew? And can anyone, looking at the new products and processes daily pouring out of our industrial laboratories, seriously believe that the rate of innovation has suffered because we have learned to finance it safely?

"Institutionalizing risk"

OF COURSE, all these points are well taken. Our remarks should certainly not be taken as a sentimental plea for a return to the good old days when industrial progress often *required* subsistence wages for the worker and tremendous risks for the capitalist. The disappearance of these "dismal" features of early capitalism in the modern American economy must, on balance, be considered a net gain.

And yet "progress without risk" is not an unmixed blessing. In the first place, we are quite confident that no real progress can be achieved without the assumption of some risk. This is as true today as it was 50 years ago. Invention is still a risky business and, given the high cost of today's scientific equipment and personnel, even a giant corporation can lose a lot of money if it makes the wrong guesses. Scientists tell us that for every successful invention there are many more unsuccessful ones.

What worries us is that these risks are becoming "institutionalized." More and more, the risks of invention are borne, not by individuals, but by large impersonal organizations. Thus the traditional psychology of capitalism—the feeling that "I am personally participating in the growth of companies in which I have invested my money"—has, in a sense, become depersonalized. If progress becomes such a "safe" investment, is there not, perhaps, a danger that progress itself will become safer? May the day not come when there will be no room for the truly "subversive" innovation, the kind that calls for a fundamental business reorganization or the rapid obsolescence of existing equipment?

In the short run, this is, perhaps, not a very serious problem. But in the long run, it poses a very serious problem indeed for those who believe in the free-enterprise system. For if individuals no longer feel that they are participating in the risks as well as in the rewards of economic progress, no extension in stock ownership, no broadening of indirect ownership through institutional investment, and no amount of "spreading the benefits" will be able to preserve the psychological incentives to innovation upon which that system depends.—M.K.

Institutional control over pooled savings is increasingly shaping the distribution of investment funds

America's GIANT *Investors*

by Rudolph L. Weissman

INSTITUTIONS engaged in investing are a dramatic example of modern American gigantism. Even with tangible national assets at well over a trillion, the 430 billion dollars of assets held by life insurance companies, trust funds, investment companies, pension funds and savings and commercial banks at the end of 1954 is a tremendous figure. At that time, these institutions owned more than 60 per cent of all corporate bonds and between 35 and 40 per cent of the outstanding corporate preferred stock.

There is every indication that the swift growth of institutional investments, which began at the end of the last war, is continuing today. Figures more recent than 1954 are available on life insurance companies and savings and loan associations. The life insurance firms now have assets of 100 billion dollars and are growing at an annual rate of six billion dollars. As the nation's most important institutional investor in industry, they hold more than 85 per cent of their assets in corporate securities and real estate mortgages. Savings and loan associations, whose assets are largely invested in real estate mortgages, are growing at the rate of about 5.5 billion dollars annually. Judging from these figures, the role of institutions in our investment markets is bound to grow.

What are these institutions doing to the economy? As more and more of our savings are invested by institutions rather than by individuals, how will this affect the future supply and distribution of investment funds? Will it give them an "unhealthy" influence over the management of companies in which they have large holdings?

Consider the impact of the life

insurance companies. The last attempt to create alarm over the power of life insurance companies was in 1940, when the Temporary National Economic Committee investigated their role in our capital markets. The investigation ended rather lamely, with the grudging admission that no abuses were uncovered. As a matter of fact, institutional investors have scrupulously avoided getting into management squabbles for fear of being accused of attempts to "control" companies. They are extremely sensitive to talk of a "money trust" monopoly. The principle is that the investor gets rid of the stock if he is dissatisfied with management. The Montgomery Ward case was the classic example.

The dominance of investment institutions in the government bond market is an important aspect of the growing "institutionalization" of our savings. Today, insurance companies, commercial banks and mutual savings banks own some 70 billion dollars' worth of the federal debt among them, out of a total marketable debt of 170 billions. Clearly, these institutions have become a most important government creditor, and Treasury officials nowadays must time new bond issues to meet their demands. Is this too much power?

Criticism was sharp when the institutions began to unload government securities at the end of World War II. They were accused of showing a lack of responsibility. In retrospect, such criticism was not justified. In fact, the reinvestment of institutional funds in housing mortgages and corporate bonds enabled the economy to expand with a minimum of inflation. Many new investments came from funds provided by the sale of more than 10 billion dollars of treasury bond holdings by life insurance companies between 1946 and 1951.

What has been the impact of institutional investment on the stock market? Most of the institutional investors are restricted as far as common stock purchases are concerned by both legal and functional limitations. Many trust companies (the most important investors in stocks among institutions) and most investment companies, however, can buy all they want. In 1954, they held about half their assets—42 billion dollars—in stocks. They have been increasing their rate of purchases markedly—from 300 million to one billion dollars annually in about 10 years.

By and large, institutions tend to concentrate their stock purchases almost entirely in the so-called "blue chips." A 1956 study

Rudolph L. Weissman is an economist with W. E. Hutton & Co., a leading investment securities firm. He is author of the book, *The Investment Company and Investor.*

by the Securities and Exchange Commission revealed that institutional trading, mostly through bank-administered trust funds and investment companies, accounted for 16 per cent of the total activity on the New York Stock Exchange between 1955 and 1956. The SEC found that most of the stocks they dealt with were in the "50 favorites" class of high grade corporate issues. It is, therefore, hardly surprising that institutional buying has resulted in a gradual widening of the price gap between blue chips and other common stocks.

Aggregate holdings

Perhaps this trend is inevitable. Institutional investors have rarely made it a policy to reduce their *aggregate* common stock holdings in order to provide pressure on the markets. During the past few years, institutions have made twice as many purchases as sales on the New York Stock Exchange. When they sell, it is usually to buy another group of stocks. Thus, the general level of stock prices may be permanently higher than if institutional investing were a negligible factor in the capital market.

Indeed, most securities analysts believe that institutional buying has contributed very considerably to the postwar rise in stock prices. It has also acted as a cushion against panic selling by other investors. When, for example, the market broke sharply in September 1955 at the time of the announcement of President Eisenhower's heart attack, institutional buying provided much needed support. On the other hand, a reduction in the volume of institutional stock purchases would probably result in greater susceptibility to general price declines. If variable annuities should gain widespread adoption, the common stock holdings of institutional investors would tend to rise more rapidly, accentuating recent trends.

It is true, of course, that institutional buying can intensify the harmful effects of individual investment policies. Thus, insurance companies and mutual savings banks sometimes contribute to the deterioration of a neighborhood by boycotting its mortgages. It is also true that institutional investors sometimes hurt particular industries, like the railroads, by an unwillingness to recognize change, or by placing undue emphasis on past experience. And, of course, institutions, like other investors, can make mistakes. Readjustments, in such cases, can be severe. By and large, very few such readjustments have been necessary.

Critics are unhappy, however, about the economic impact of another aspect of institutional in-

vestment, the practice of private placement. Securities acquired directly through negotiations between the buyer and the issuing corporation need not be registered with the SEC, the government's chief watchdog in matters of financial ethics. Institutions like this method because they can be sure of obtaining as much of a company's issue as they want—something they could not do on the open market. Since such privately placed issues are usually bonds, the issuing company can also save on the distribution costs of its debt. It is clearly cheaper to sell a bond issue to one creditor than to several thousand. There is no evidence, however, that private placement gives the institutional creditor "control" over the debtor companies. Institutions do not place directors on the boards of corporations.

Private agencies

But such policies often result in barring small companies and individual buyers from a desirable market of prime securities. The situation is perhaps more serious for the small firm which finds it increasingly difficult to place its issues. It is precisely these companies which are most dependent upon outside financing. Blue-chip corporations are relying more and more upon the reinvestment of undistributed profits anyway, and even when they go outside for funds, they usually have no difficulty finding eager buyers.

Of course, it may very well be that banks and life insurance companies are investing more heavily in small and medium-sized companies than is generally known. Still, public flotations by small companies are very expensive and are, in any case, often unsuccessful except during boom periods. One solution would be the formation of private agencies by institutional investors to channel their funds into small and medium-sized business. Such agencies already exist in Canada and England.

Another problem presented by institutional investments is the situation of firms seeking equity capital. With the exception of personal trust funds and investment companies, most institutions are limited either by law or function from making extensive investments in stocks. Thus, life insurance companies and mutual savings banks are prohibited by law from holding more than a small portion of their total assets in common stock. With more and more of our savings being channelled into institutional hands, will this lead to a shortage of equity capital?

It is impossible to answer this question in general terms. As we have indicated, there is no real

shortage of equity capital for large enterprises. The only kind of business which might be hurt by the growing role of institutional investors who cannot buy stocks is the small or medium-sized enterprise. Even here, however, it is not at all clear that the institutions are responsible for the small company's difficulties. Individuals, too, have shown a marked preference for the "blue chips" of large corporations.

Some experts have suggested that life insurance companies be allowed to increase their common stock holdings. Experience, however, suggests that the insurance firms would make no drastic changes in their policies if state laws were liberalized. A flurry of stock buying was expected when the New York State Legislature allowed life insurance firms to invest three per cent of their total assets, or one-third of their surpluses, in common stocks. But the expected burst of activity did not materialize, and the insurance companies have kept closely to their old conservative investment policies.

One of the reasons for the reluctance of life insurance companies to buy common stock has been the decline in the yields of eligible stocks at a time when returns on mortgages, bonds and preferred stock have been rising. The president of the Metropolitan Life Insurance Company spoke for most insurance firms when he said of common stocks: "They fluctuate more and are more speculative than senior securities. In good times they do well; in bad times, not so well."

Indeed, by and large, institutions have behaved in a remarkably responsible manner. Constant study by institutional investors themselves will prevent excessive complacency from creeping in. The investors are, of course, obligated to remain sharply aware of their impact and to modify their policies for the good of the whole economy. Continuing publicity should help guarantee prudence and flexibility in the future.■

Life Insurance Dollars

DURING 1957 there has been a continued expansion of family financial security through life insurance, and by the end of the year it is expected that life insurance ownership will have moved up to a new peak, possibly exceeding 450 billion dollars. Benefit payments will more than likely exceed 6.25 billion dollars, which would be 400 millions more than was paid in 1956. Life insurance dollars will probably contribute not much less than six billion dollars of new capital to the American economy. Thus combined, the benefits and the new capital, the contribution would represent some 12 billion dollars in "special and economic aids."

Seventy per cent of the American population has some form of protection against some of the costs of ill health

Transformation in

MEDICAL BILLS

by Herbert A. Klarman

PROFESSOR Lawrence J. Henderson, the Harvard biochemist, has said: "I think it was about the year 1910 or 1912 when it became possible to say of the United States that a random patient with a random disease consulting a doctor chosen at random stood better than a fifty-fifty chance of benefiting from the encounter." Thus it was not so long ago that medical care could do little for the purchaser in this country and consequently threatened no great financial loss.

Subsequent advances in medical science have made a doctor's services both eminently worthwhile and *costly*. By 1955, the total expenditure for medical care in the United States was 17.7 billion dollars. For the individual or family, medical expenses represent a dangerous threat because of their unpredictability and their magnitude. Health insurance spreads out the costs over the individual's lifetime. It also spreads disproportionately heavy medical costs that might strike any one individual among all policyholders, including the less fortunate ones.

But there is another problem peculiar to medical costs which insurance seeks to solve. Medical care is a service which the seller cannot repossess in default of payment. Thus, spreading out payment on an installment basis *after* the doctor's work is done is not overly practical. The effective solution is insurance on a prepayment basis.

Voluntary health insurance has made remarkable progress since its start in the mid-Thirties. The latest statistics this year show that 118 million persons, 70 per cent of the American population, have some protection against hospital

bills. Authorities believe that this is only five to 15 per cent short of maximum enrollment.

Most of those with hospital protection have additional coverage. Half of those with this basic protection also are insured under plans providing for physicians' (including surgeons') services in hospital; 30 per cent under plans for surgeons' services only, and eight per cent for physicians' (including surgeons') services in the hospital, office or home.

Need and coverage

It was inevitable that the speed with which health insurance programs have spread should have resulted in a certain disproportion between need and coverage. An employed person is more likely to be insured than the self-employed or the unemployed. A precipitous drop in coverage occurs after the age of 65, and rural populations are not so easily reached as city concentrations. Thus many of the most vulnerable are the least protected.

Health insurance can be bought from nonprofit Blue Cross hospital plans, which are sponsored by the American Hospital Association; nonprofit Blue Shield surgical plans, sponsored by state or local medical societies; commercial insurance companies and independent plans. Blue Cross led the others in hospital care insurance until 1949, when the commercial companies won the lead. Blue Cross had 53 million subscribers at the end of 1956 against 66 million commercial subscribers, while Blue Shield was 20 million behind the 63 million members of commercial and surgical plans. Blue Shield, with 34 million members, is ahead by four million in regular medical insurance. The independents' enrollment is five million. The commercial companies issue most of the major medical insurance policies.

People buy insurance as individuals, families or as members of groups. Employer contributions to insured groups are becoming increasingly important. By 1955, they reached an estimated 840 million dollars, more than a quarter of the year's total premiums for health insurance.

It would be salutary to note what the insurance plans do *not* cover. Besides the individuals they miss, they fail to pay for much the greater part of medical care costs. Thus, in 1955, insurance benefits amounted to 2.5 billion dollars, while national medical costs totaled 17.7 billion dollars. A rise in benefits from 600 billion to 2.5 billion dollars in seven years is, accordingly, more impressive on its own terms than in

Herbert A. Klarman is Associate Director of the Hospital Council of Greater New York.

comparison with the huge nationwide costs figure. Insurance premiums are 18 per cent of all medical care expenditures, and benefits come to less than 15 per cent of the total. Federal, local and state governments pay for 31 per cent of the nation's medical care through their mental and tuberculosis hospitals, veterans' hospitals, military medical services and medical and hospital care for the poor. Employer expenditures, other than insurance premiums, come to two per cent, and philanthropy accounts for five per cent. Uninsured consumer payments cover the remaining 44 per cent.

Actuarial controls

More benefits go for hospital care than for any other service. This is due to the assumption that hospitalized illness means costly illness. Hospital care, also, can be more easily subjected to actuarial controls. But some plans in this country and Canada successfully cover physicians' services outside the hospital. Surveys have shown that the costs of doctors' services in the office and home, as well as the costs of medicines, appliances and dental care, can be very important to certain families.

The increase in medical costs, impelled by improved medical know-how and techniques, promises to continue in the future. Health insurance has a number of intricate and interesting effects on medical economics. Costs are increased for these reasons:

- A new cost element—the net cost of insurance—is created. For some time this item has amounted to one-fifth of premiums, representing a markup on benefits of one-quarter, as indicated by the considerable difference between premiums and benefits in the figures for 1955.
- Services formerly rendered without charge are now paid for.
- Sometimes the very existence of insurance becomes a reason for raising fees—for example, when the physician applies a so-called sliding scale of charges and takes insured status as evidence of greater ability to pay.
- Incentives to efficient operation of medical facilities are sometimes diminished by the intervention of so-called third parties between the patient and the provider of the service.

The demand for insured services also increases:

- as the financial barrier is lowered or removed. Of course, the extent to which the higher use of services reflects abuse of insurance, a meeting of formerly unmet needs or a rising standard of consumption is a moot question; and
- at the expense of uninsured services whenever two types of service can serve as reasonably

adequate substitutes for each other. The total costs of medical care are increased to the extent that an insured service, such as hospital care, is more expensive than an uninsured service, such as diagnostic care for ambulatory patients.

The demand for uninsured medical services can also increase when health insurance helps in budgeting and prepaying some medical services. This permits the family to spend more for an uncovered service like dental care.

It can be argued that ultimately a reduction in medical care expenditures may take place as preventive medical care bears fruit. But the converse is easily possible, as the greater use of diagnostic services results in the detection of hidden illnesses.

An important effect of health insurance is the increase in the number of hospitalized patients who can afford a private physician and the corresponding reduction in the number seeking admission to hospital wards. The latter group has traditionally served as the clinical material for medical teaching.

Some hospitals are bound to face a shortage, if they continue to rely exclusively on ward patients, commonly believed to receive the best medical care. Medical teaching institutions will have to learn to prosper in the midst of economic plenty, enjoying the opportunity to bring high quality care to all segments of the population, not only to the poor. This may prove to be a difficult task, but one that must be solved. Experience accumulated by some hospitals in using paying patients for teaching purposes should prove helpful.

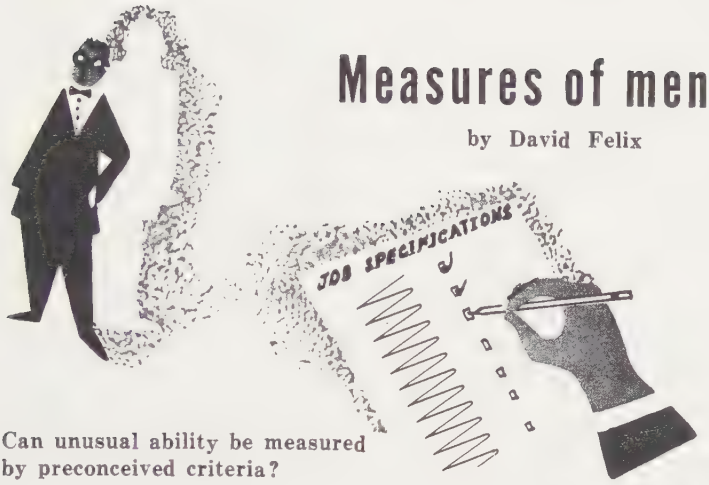
The achievements of health insurance are obviously considerable. These, in turn, have created a number of new problems which cry for solution as insistently as did the old problems. ■

Medical Ambassadors

On August 13, a five-man mission of public health specialists left New York for the Soviet Union to learn firsthand how the Russians combat contagious diseases. The mission is headed by Dr. Thomas Parran, Dean of the University of Pittsburgh Graduate School of Public Health. Interviewed by *Scope Weekly*, a publication of Physicians News Service, Inc., Dr. Parran said that the group is "interested principally in learning more about the table of organization of the Soviet Ministry of Health and how public health functions are carried out in the field. . . .We'd like to know what's good in their system—which is built from the top down—that could be adapted to our system—which is built from the ground up."

Measures of men

by David Felix



Can unusual ability be measured by preconceived criteria?

THE APPLICATION should not have come to the personnel man, but the case was so interesting that he gave it his careful attention.

It was obvious that the candidate had not the slightest qualification for the job. But then he had lacked the "personality profile" for the other positions he had held.

He had not got along well with his schoolmates or instructors. He then went into a branch of the Army that acted as a catchall for the unpromising. His courage was undeniable, but he preferred books and polo to military science.

However, there was nothing the personnel man could do in the case of a candidate for the British Parliament. (Indeed, the personnel man and his problem are retroactively hypothetical.) The candidate was Winston Churchill, who stood for election—and won.

The personnel man could have gone on for decades after that, shaking his head and citing such witnesses as London's *Morning Post* during World War I: "That dangerous and uncertain quantity, Mr. Winston Churchill—a floating kidney in the body politic—is back again in Westminster. The one thing certain is that the Lloyd George Ministry has been dangerously weakened . . ."

In the days of Churchill's purest glory, in 1941, Field Marshal Sir Alan Brooke wrote of the war chief in his diary, "God knows where we should be without him, but God knows where we shall go with him."

How can you measure a giant like Sir Winston Churchill? This

is a problem in business as well as government.

Consider Churchill on the basis of current personnel criteria:

•*Social adjustability.* He was a misfit all his life, in school, Parliament and ministerial office. He quit the Conservatives to go to the Liberals, only to return later.

•*Cooperativeness in the work situation.* As a cabinet minister Churchill was disliked by many of his colleagues because he continually poached on their domains.

•*School performance.* Worse than mediocre.

•*Sense of order and proportion.* He loved to conceive plans at 3 A.M. that would have destroyed much of his military force.

Standards and averages

It is, perhaps unfortunately, a law of personnel selection that the bigger they are, the harder they are to measure. A test is, by its very nature, a normative construction; it must use standards and averages. But the great man is, by definition, an exception. You can easily enough determine who your best machinist or typist is—a micrometer will tell you who is producing the best work pieces, and your eye is good enough to detect the typist's errors. But who is the best foreman or office manager? Is it the driver type, who seems to get more work out of his people? Is it the "nice guy" who makes everybody feel good? Has your driver driven people out of their efficiency or even their jobs? Is your popular boss the slave of sluggards?

In his book, *The Organization Man,* William H. Whyte, Jr., wrote: "If the criteria set up by many personnel men were to be applied across the board, the majority of U.S. corporation executives would be out of a job tomorrow." An uncritical acceptance of personality test results would cause, Whyte added, the discharge of half the dynamic people in corporations. But business must accept the responsibility for the weaknesses of the personnel men; it has failed to decide just what it wants, and it has given the personnel people conflicting orders.

Charles E. Sorenson wrote in *My Forty Years with Ford* that Henry Ford had not invented the assembly line and that the organization of dealerships by James Couzens was an important factor in Ford's success. Nevertheless, the unworshipful Sorenson concluded that his chief, with his stubbornness, incapacity for caution and questing imagination, was the indispensable man in the Ford revolution. Sorenson admitted, moreover, that the mystery remained: he was not sure how these qualities contributed to effectiveness.

Other great figures of Ameri-

can business life are as difficult to catalogue. Consider the conflicts about John D. Rockefeller, Andrew Carnegie, Sewell Avery or Jay Gould and the other railroad men who built a vast trackage on an often watery stockbed.

Disparate element

Crawford H. Greenewalt, Du Pont president, thus phrased the personnel selection problem: ". . . as we pass more and more away from special, measurable skills into the less definable intangible talents, it becomes more of an art and less of a science. We must rely in large measure on intuition, and hope and pray that our candidate's performance will reflect our wisdom rather than our incompetence."

The great leader's essential quality is a disparate element in his world, and he must do battle against a social and situational conspiracy. The talents needed at the top are often the obverse of those demanded at the bottom. This causes the personnel man great trouble because he is, reasonably enough, concerned with filling a junior executive's position now and not a firm president's 25 years from now. The good subordinate is meticulous with details, does not compete with his chiefs in policy thinking and is usually a specialist in discrete matters. The leader is a generalist afloat in a roiled fluid of ideas, people and things.

The great man himself is often the worst possible judge of potentiality in his subordinates. A dominant chief will demand subordinates who can restrict themselves to a mindless execution of orders. Ford had a penchant for lieutenants whom kindness would at least characterize as exotic, and the late President Franklin D. Roosevelt seemed content with Cabinet mediocrities. On the other hand, Lawrence D. Bell wanted someone with a similar viewpoint —but with *different* talents. He picked Leston P. Faneuf to do what he could *not* do well, and Faneuf later succeeded him as president of Bell Aircraft Corp. A final assessment of Faneuf's capacities will depend on his rising above those origins in the field of administrative detail.

Personnel selection is made more difficult by the close alliance of competence and incompetence. Many leaders have trained for their jobs by failing at others. Lincoln was a wretched storekeeper; Grant went bankrupt in business. Napoleon failed a crucial pragmatic test when he fainted dead away at the apparent defeat of his 1799 power grab. His brother Lucien saved the day, and Napoleon went on to belie that instant's weakness.

Marshall Louis Lyautey, cre-

ator of the modern Morocco, was such a bad field commander that his lieutenants tried to keep him away from the front. Albert Einstein was childlike is his dealings with the ordinary problems of daily living. It has been said of Orson Welles that he could not calculate money sums in less than million amounts. You could not describe Henry Ford's opinions on banks and monetary matters as anything less than other-worldly, and yet he got the money.

Leaders often perform superbly in positions for which they have had no training. England's military men were horrified by the choice of Lord Haldane, a lawyer with an interest in German philosophy, as Secretary of State for War in 1905. He further upset them by remarking, as he took office, that he could be compared to a tender virgin being clasped in the brass arms of the god of war. Haldane repaired the extensive damage done by the old soldier who had held the job and prepared the British Army for its distinguished performance in World War I. Clement Atlee, in a recent comment on his cabinet leadership, insisted that experts made the worst possible ministers.

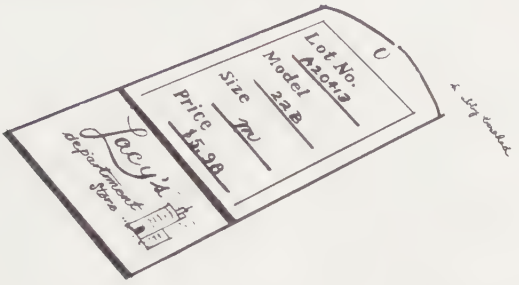
The reverse military-civil alternance also occurs. General James H. Doolittle went on to Shell Oil after World War II for his second Army-to-civilian-life change, and General Lucius Clay went to Continental Can after battle and occupation duties. There are other examples too obvious to mention.

Situations have a way of selecting leaders. The cost-cutting souls succeeded more expansive natures during the depression, to be followed by a new generation of risk-takers. Sewell Avery's last agony was caused by a depression psychology in a boom time. Thus, today's situation can overrule yesterday's great man in picking his successor.

Fortunately, business is becoming more aware of the problems of personnel selection. Greenewalt of Du Pont has been seconded by R. S. McNamara, a new-generation Ford executive, who could say: "The enemy within us is our own growing tendency toward a sterile conformity of thought and behavior." It will be interesting to see what happens to the future leadership of Du Pont and Ford as the result of such thinking on the part of their present leaders.

There is, moreover, another reassurance we can take as we consider the problem of identifying the leader. He is not waiting for the personnel man to pick him out. He is stubbornly shifting about the heavens and earth in order to form a context in which he can act greatly. ■

Administered Prices—



a new inflationary villain?

by Jules Backman

THE AMERICAN ECONOMY has lately been suffering distress from what is aggressively termed inflationary prices and more resignedly called high prices. The phrase, "administered prices," has bobbed into the ken of the layman under auspices that present it as a more recondite variant of the other words criticizing big business.

Last July, Senator Estes Kefauver's Antitrust and Monopoly Subcommittee began hearings on the behavior of administered prices. According to the Senator, "Administered price industries .... [are] those which because of their power have control over prices not affected by normal competitive forces. Examples are steel, newsprint, many types of food, automobiles and farm machinery."

Actually, anything with a price tag that means what it says has an administered price. This contrasts, for example, with the market price of wheat as determined on a given day by the supply and demand at a given wheat exchange. Your retail store asks an *administered* price for milk of magnesia, shoes, fish, books, hair curlers and tennis balls; a wheat broker will quote a *market* price.

There seems to be a confusion of the concept of administered prices and the concept of inflexible prices. There also is an implicit condemnation of the administered pricing process. Just what is at issue?

Administered prices have been blamed for many things. For example, during the 1930s, some economists charged that their behavior provided a major explanation of the continuing depression.

Others alleged that because of price administration, modest recessions are converted into deep recessions. But it should be noted that the 1948-49 and 1953-54 recessions were very mild despite the presence of administered prices in our economy. More recently, administered prices are being blamed as the cause of inflation.

One writer has claimed that the larger the proportion of prices "determined by administrative control. . .the higher will our price level probably tend to be, and the smaller will be the chances for any marked increases in real labor income to take place." This extreme claim was made just before World War II. The enormous rise in real labor income since that date is now a matter of history.

Ability to control

A labor economist told a Congressional Committee in January that "an administered price. . . system enables certain corporations to fix their prices on the basis of what is considered financially desirable for the corporation and without regard to the needs, the welfare and the stability of the economy as a whole."

It is also claimed, although without supporting facts, that administered prices decline less than other prices during periods of recession and then increase more during periods of expansion. This is supposed to show how big business takes advantage of its "ability" to control prices.

When the term was first introduced, it was made synonymous with terms like inflexible, rigid and insensitive prices. The general implication was that these types of price behavior resulted in a malfunctioning of the economy. According to Gardiner C. Means, who introduced the term in the Thirties, "An administered price . . .is a price which is set by administrative action and held constant for a period of time."

For how long must a price be set before it is considered to be administered? Normally, the price of an active stock will fluctuate many times in a trading day. To fix the price of a stock every hour on the hour would mean a substitution of administrative pricing for market pricing and would change the nature of the present system of market price determination.

At the other extreme, we find many items for which retail prices may not change for a period of months and sometimes for years. These are the most rigid administered prices. Yet they often are determined by small retailers for products which are produced by small firms in industries in which

Jules Backman is Professor of Economics at New York University.

there is little concentration of control of output.

These illustrations suggest that there is no meaningful time period which can be used to delineate so-called administered prices from market prices. The only significant basis for distinction must be the establishment of prices by administrative action rather than in an auction market. When a price is established by a company, and the company offers to meet all demands at that price, it is administered.

Actually, almost all prices in our economy are set by administrative action. This is true for the giant automobile industry and for the smallest retail store. The most important exceptions are the prices of many farm products on the commodity exchanges and in the produce markets, and the prices of securities.

Established by custom

Many small independent producers use trademarks and brand names to differentiate their product and hence to administer prices. Similarly, in very highly competitive fields, which have many small producers, price lines have been established by custom. Clearly, "administered price industries" embrace practically every industry, large and small. Thus, administered prices are not confined to big business.

The long-term existence of administered prices is recognized both by those who criticize and those who defend them. As Rufus Tucker, formerly economist with General Motors, has pointed out: "There can be no doubt that in this country *ever since 1790 our price structure has included a large number of prices that remained unchanged for months or years at a time,* side by side with prices that changed monthly, weekly, daily, or in recent years even hourly."

But the American economy has made the adjustments required to achieve our vigorous growth under a system of administered prices, not under a system of free market prices. The latter have existed primarily in economics text books.

Dr. Means painted a depressing picture of all the alleged evil consequences which have resulted from administered prices. However, he indicated that if we were to "pulverize industry" in an effort to eliminate this type of pricing, "productive efficiency would have to be greatly impaired and a *lower standard of living* accepted than is made possible by modern industrial organization and modern technology."

The term "administered prices" is primarily useful as a method of describing the process of price-making. As such it provides a de-

scription of the *method* by which a price is determined. It does not, by itself, show that a price is too high, or too low, fair or unfair.

An administrator or executive determines the price. But he does not determine this price in a vacuum. He cannot be capricious. In setting the price, the administrator must consider a host of factors, including demand, costs, capital investment, prices of substitute products, nature of the product, government controls and competitor reactions. The local grocer soon finds out that when he sets prices too high he loses business to the chain store and the supermarket. The railroad must be concerned about the trucker and the airplane.

There is no choice as between administered prices and market prices for the overwhelming majority of products. Three major requirements for a market-pricing system are a large number of buyers and sellers, standard products and ease of entry into and exit from a given industry. Most industries do not have a large number of buyers *and* sellers. Would it be possible to "pulverize" the steel industry into a great number of sellers? Could the railroads similarly be reduced in size so that the market for steel rails both for buyers and sellers could approximate the theoretical requirements of a market-price economy? To state these suppositions is to show how unrealistic they are.

How will the second requirement for market pricing, standard products, be satisfied for furniture, automobiles, women's clothes, canned peaches, toothpaste and the host of other products which are predominant in the American way of life?

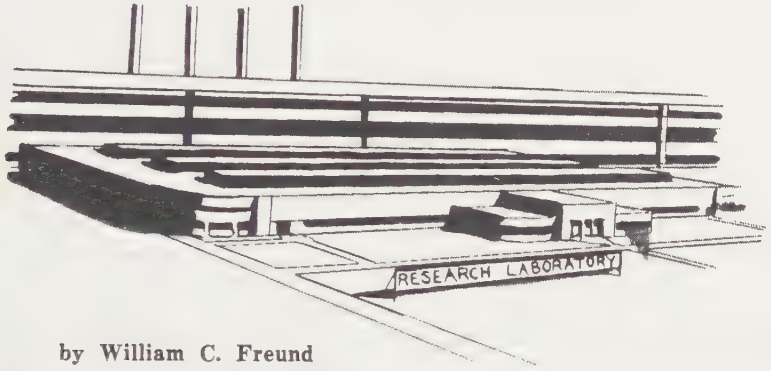
The apparel industry can qualify for the third prerequisite of market pricing, ease of entry and exit. But how could this condition be met in steel, aluminum and automobiles with their large capital investments?

We shall have administered prices in the future as we have had in the past. And we shall find that such pricing is no more a barrier to economic growth than it has been in the past. ■

The Big Spiral

AS INCOMES INCREASE, and the standard of living spirals upward, the nation's workers find that their desire increases for more and more of the accouterments. One out of every thousand workers has taken a part-time job in order to make up the difference between the steadily rising demand for consumer goods and the steadily rising cost of living. One out of every 18 workers in the U.S. has two "full-time" jobs now—an estimated 3,700,000 men and women. They need extra income to finance education, appliances, clothing, cars, vacations, etc.

Investors in today's growth industries bear only minor risks of innovation



by William C. Freund

Progress without risk

WHEN Charles Lindbergh set out to fulfill his dream of conquering the Atlantic he was faced with many problems which he had to overcome himself, from the design of the plane to the bridging of the water. "Above everything else," he wrote "looms the question of finance." Who would back an idea so fraught with risk? Lindbergh, like other American innovators—like McCormick, Westinghouse, Ford and countless others—succeeded only because he was an individualist.

How might this achievement be handled today? A large corporation, staffed by technical specialists and scientists, would assemble a team to investigate the feasibility of "Operation Spirit of St. Louis." The team would include experts in physics, metallurgy, aerodynamics, engineering design, production methods, cost analysis and sales research. Ample funds would be provided by the firm's development budget. When success finally came, it would not be celebrated as the triumph of individual genius. For this venture would be the result of the systematic and cooperative search for progress as conducted by today's large corporations.

The term innovation means more than mere invention. Joseph A. Schumpeter, the distinguished economist who made the word "innovation" a part of every economist's vocabulary, defined the term broadly enough to take into account all pathbreaking developments. Innovation, he emphasized, covers any act of bold leadership —the development of a new prod-

uct or service, the introduction of a new method of producing or distributing goods, the conquest of a new source of raw materials, or the launching of a new business enterprise. It was a genuine innovation, for instance, when Henry Ford first successfully instituted the continuous-flow, or mass-production method of automaking. Again, it was a major innovation when the grocery, or general store, of the prewar period was replaced by the modern, multiproduct supermarket.

Empirical basis

While Ford had to do his research on a part-time, empirical basis, few new products and processes are today developed in this way. Innovations have become the province of large corporations. What are the factors which account for this transformation of research?

A major reason for the declining influence of the independent investigator is that the very nature of science and technology has made him obsolete. The typical innovator of old was short on formal scientific training but long on native originality and determination. He was able to produce innovations—even entirely new industries—on the basis of relatively simple discoveries.

Modern technology has become infinitely more complex. The innovators responsible for developing atomic energy, designing electronic computers, producing nylon, inventing the transistor, were highly trained scientists, possessing advanced degrees and a knowledge beyond the reach of the interested layman.

This increasing complexity of technology has favored big business. Only large concerns can afford the costly equipment and have a scale of operations to utilize effectively the results of research. A fully automated assembly line, for instance, run by complex electronic devices, can be used to advantage only by companies able to invest millions of dollars in cost-cutting equipment.

Leading firms today regard organized research as a powerful means of improving their competitive position. This is their incentive to attract highly skilled scientists, competent engineers and enterprising executives. No major firm, concerned with its share of the market and its future growth, can afford to ignore the pressures to innovate. Today's giants sometimes compete less in terms of price and quality than in the development of new products, new markets and new techniques of production.

William C. Freund is a staff member of the Economic and Investment Research Division, The Prudential Life Insurance Company of America.

The pharmaceutical industry provides an outstanding illustration of competition through research. Before the war, manufacturers of ethical drugs employed only a handful of scientists. Today, the industry spends five per cent of its gross income on the development of new products. This research competition has stimulated an abundance of new drugs to benefit mankind.

Pharmaceutical firms recognize that being first with a new product often spells the difference between a large profit or none at all, since improvements can make new drugs obsolete within a matter of months. There is a saying in the industry that "if you stay with a product too long, you run the risk of losing your profits."

During the course of this year, American industry will spend more than seven billion dollars on research and development—an impressive increase of 20 per cent over last year's expenditures, and a startling 50 per cent rise over 1955 levels.

Enlarged capacity

Such expenditures serve to enlarge our capacity for technological discoveries and to speed up the pace at which innovations can be produced. In an address delivered before the Detroit Bankers Club, Dr. Leland Doan, president of the Dow Chemical Company, discussed the benefits of accelerated innovation. He said: "We have recently packed centuries of progress into a few decades because we have learned to 'invent' cooperatively, deliberately, and almost with a fierce determination. . . . It is interesting to contemplate that in 5,000 years of recorded history man developed only four useful textile fibers—wool, cotton, linen and silk. Suddenly, within the memory of most of us here, he has added rayon, nylon, Orlon, Dacron, Saran and others."

Innovations themselves create new and higher paying jobs and thereby increase the ability of consumers to purchase luxuries. Consumers, thus, play an important role in encouraging innovation. As the proportion of consumer income available for discretionary spending rises, firms are encouraged to create new and better products. Much of the stimulus for innovation, especially since the end of the war, has no doubt come from this source.

When Henry Ford decided to build his standardized Model T, he finally obtained some 30,000 dollars with the help of a well-to-do coal dealer; but only a handful of others were interested in risking their funds. In those days investing in progress was risky. Innovators—with their win-or-lose propositions—had to struggle to

raise even small amounts of venture capital.

By contrast, investors in today's fast growing industrial giants bear only minor risks of innovation. We have almost achieved "progress without risk."

The risk of innovation is still there. What has happened is that it has been so greatly diversified that it scarcely seems to exist at all. The future of the large corporation and the value of its securities depend only to a small degree upon the success of any one experiment or any one idea. In much the same way as insurance companies render individuals less vulnerable to personal loss, a corporation now diversifies the risks of research and development, and is encouraged to take risks. The large corporation, with a diversified line of products, can afford to sponsor some lines of research which might otherwise not be undertaken, simply because of the size of its operations, and because it can count on the profits of successful innovations to underwrite the cost of the disappointments.

No longer need an innovator find a venturesome investor willing to buy speculative stock. On the contrary, investors have become increasingly partial toward "growth companies," firms with records of innovation. As far as the investor in the large corporation is concerned, the link between the risk of innovation and the risk of investment has been broken.

The trend toward "progress without risk," or, more accurately, toward the diversification of risk, has accomplished a twofold purpose. It has increased the funds available for research and development, and it has served to stabilize the value of securities. No longer does innovational success send security values skyrocketing and failure result in bankruptcy.

Effect on incentive

But what has been the effect of organized research on the incentive of individuals to produce and exploit new ideas and new ways? Has not research become depersonalized, automatic and almost routine? Will research by bureaus and committees extinguish all flashes of genius, leaving only salaried managers to administer the status quo? Schumpeter, who raised these questions, despaired of the future of capitalism. He believed that the very success of capitalism would ultimately lead to the stationary state and to the destruction of capitalism itself.

Schumpeter's fears were not idle theorizing. Routine can extinguish imagination and frustrate the innovator. Yet the current scene offers little evidence to bear out Schumpeter's dismal

prognosis. The pressures to innovate are becoming increasingly intense. Corporate innovation, instead of atrophying the creative process, seems to be sparking it. Our large companies have probably never been so keenly aware of the value of individual genius and their need for it.

For instance, one of our largest oil companies, which formerly offered major advancement opportunities only in management and administration, recently established equal advancement opportunities for its scientists in research and development. This new policy follows the practice of another large company which considers progress its most important product. In this company, it is possible to find scientists drawing salaries even higher than those paid to its top-level managers.

Greater latitude

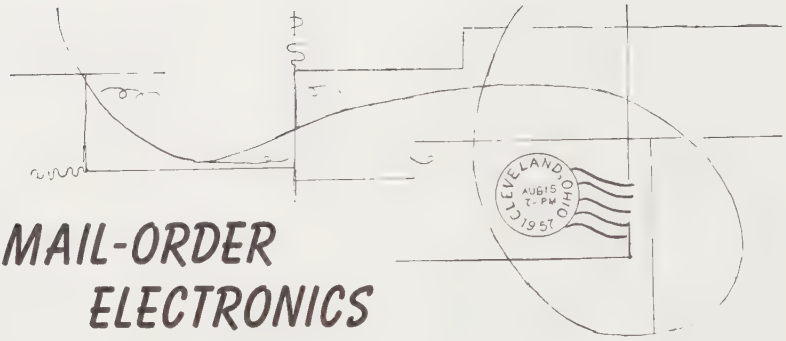
The number of companies practicing enlightened research policies may be small, but it is growing. Research staffs are being given greater latitude in the conduct of their work. The eccentric scientist, the ivory-tower academician, the confirmed individualist, are being given greater opportunity to function in the environment of industry.

Sumner H. Slichter, Harvard's celebrated economist, recently observed that America has created "a large and rapidly growing industry that may appropriately be called the industry of discovery. Its product is knowledge." This new industry, established not only within existing firms but in the form of independent consulting organizations, has a vested interest in fostering the future growth of research.

Schumpeter's warning, however, should not go entirely unheeded. We must strive to keep alive economic opportunities outside the large corporation. Technology has conspired against small business. But public policies, especially our tax laws, can keep alive opportunities for the small entrepreneur —the fellow who cannot fit into the giant corporation, the one whose faith in an idea is not shared by others. It is worth remembering that our economic growth, even our economic survival, depends upon the work of the innovator. We can encourage him in many ways or drown him in routine before he has a chance to be recognized. ■

An Eccentric Tradition

INNOVATION and change are the keywords to progress today, but the investment banking house of J. P. Morgan & Co., Inc., founded in 1861, remains blithely cool to progress. Its public relations men capitalize on an eccentric tradition: roll-top desks, custom-made today at a cost of $750 each.



MAIL-ORDER ELECTRONICS

by Michael Roberts

Olson Radio Warehouse has grown to be the second largest firm in a field where the rate of business casualties is high

EVERY ONCE IN A WHILE the economics reporter comes across a company story that he feels compelled to write in spite of some of its more or less prosaic features. A business that is not the greatest or biggest in its field has its own special appeal and rewards—if only because in the business world, even a medium-sized firm must have an outstanding operational procedure to have got where it is, and keep going. The Olson boys of Akron, Ohio, and their associates, run an ordinary business with an extraordinary dexterity.

Olson Radio Warehouse, a 26-year-old firm, ranks as the second largest distributor in the one-billion-dollar-a-year electronic parts business. The word "warehouse" in the company title aptly describes the nature of the Olson business. "We have no ceiling on inventory" points out president Irving J. Olson. In other words, name the part or parts you want, and Olson has it.

The microcosmic nature of the electronics industry is not generally appreciated by the public. Attention is focused primarily on the giant manufacturers—Radio Corporation of America, General Electric, Westinghouse, and the like. But in the background are literally thousands of parts manufacturers, tens of thousands of repairmen who work with electronic parts, and an even larger number of people who constantly are in need of electronic parts to keep their radio and TV sets and professional equipment in good working order.

Olson Radio Warehouse is among those who stand in the background. Indeed, every facet of its operation is comparatively small, easily measured in the everyday mathematics of the ordinary citizen. Any "ham" or repairman can go into any of seven outlets—geographically distributed between Milwaukee and Buffalo— and make an over-the-counter purchase. But this is only one aspect of the Olson operation, accounting for less than half of a multimillion-dollar business.

Olson's established practice has been to satisfy the needs of everyone, no matter how small or remote, through its mail-order operation, which is fast and evidently profitable in its fulfillment of a real need. With its new 70,000-square-foot headquarters warehouse in Akron and its seven outlet stores, employing a total of 130 people, Olson Radio Warehouse has established a reputation in the trade for steady supply, fast turnover and quick service.

The Olson business has grown on the principle of large volume and small unit sales. The typical order received through the mails in Akron is for five or six parts, averaging 15 dollars per sale. The heart of Olson's volume-building program is the Olson Radio Warehouse catalogue. All seven stores carry the items listed in the catalogue, a new edition of which is printed every six weeks. This in itself is quite a feat since the mailing list now runs to 400,000 names.

Irving Olson, in charge of all mail-order operations, still finds people on his active mailing list who responded to his first mail-order piece back in 1935, when the list comprised 1,000 names. He is not in the least concerned that during the past 10 years the number of electronic parts has multiplied tenfold. "We just have to keep printing larger and larger catalogues," he says.

Catering to the needs of the radio and TV serviceman strikes a responsive chord in Irving Olson. He started out as a repairman, a career he ascribes to the fact that in 1926 he took a radio and electricity course in high school. He also had a little printing press at home on which he printed greeting cards as a hobby. Between his love for tinkering with a press and tinkering with radio, Irving Olson found his calling. In the midst of the depression the young man examined his assets. He had a considerable number of radio parts which he had been using to repair sets. In order to convert some of these parts into cash, he used the *Yellow Pages* of the phone book to get names of other repairmen, to whom he then sent

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Michael Roberts, free-lance writer, prepared this article on assignment for CHALLENGE.

a little printed flyer announcing the bargains he had to offer. The results were amazing. Olson went out and bought more parts, and these, too, were readily sold. By 1933, he was taking in 200 dollars a day. That was the time when 40 or 50 parts could fix any radio. So Sidney Olson, his brother, now vice president in charge of stores, started a truck sales route covering a 100-mile radius around Akron. In 1935 the mail-order business began in earnest.

Smooth operation

Today the operation is very smooth. Orders come in and go out the same day. Good packing carried by insured mail moves the parts out of the Olson Warehouse in Akron. Business is on a cash basis, so billing is not necessary. The Olson boys travel all over the country and, indeed, the world to do their purchasing. It is well known in the trade that the Olsons will pay cash for what they want to buy. Often an entire inventory of a parts manufacturer's product line will be bought up. This practice in an era of tight money has proved a valuable asset, for many small parts manufacturers who need cash to help finance production of a new item will do business with the Olsons on favorable terms.

Irving Olson has gone as far as Japan to get items made on specification. "The intricate operations involved in the manufacture of electronic parts are excellently handled there," he says. "But any item which requires a substantial amount of materials, particularly metals, will be even more expensive in Japan than it is in the United States. There is nothing cheap about Japanese goods. One has to know what to buy and what not to buy. Our policy is to get the best parts at the best possible price."

Undoubtedly, the mail-order phase of the Olson business is extraordinarily attractive to TV and radio repairmen who run small businesses of their own. They can buy what they need without pressure, for Olson does not employ salesmen in the field. About 70 per cent of the Olson business comes from radio and TV repairmen.

Kit development

The line of products which has proved most popular among Olson sales reflects the recent changes and growth of the electronics industry. Going big today are automatic record changers, indoor TV antennas, rear seat car speakers, coaxial speakers, wireless intercoms, recording tape, hi-fi systems and transistors. Industrial electronic parts are used in diathermy equipment, rubber curing machinery, precipitron furnaces,

garage door openers, furnace controls, elevators and humidity controls.

In addition, Olson Radio Warehouse maintains a small laboratory specializing in kit development. Such electronic kits are prepared for experimenters, tinkerers and school use. A photoelectric cell kit, for example, is a very popular item. There is also a multipurpose kit which can be used to build a broadcast receiver, an audio code oscillator, a wireless home broadcaster, a wireless code oscillator, a blinker light, a generator and signal tracer. All the parts are reusable, and the entire kit comes at the price of $10.95.

Stimulated perusal

In line with Olson's policy of making it easy for anyone anywhere in the country to place an order, a telephone answering service makes it possible for a customer to call Akron at any time of day or night. The customer will pay for the call, but any order received in such a manner will be filled and put in the mail within 12 hours.

Repairmen come in for special attention. Each edition of Olson's catalogue carries somewhere within its pages the names of three repairmen from widely scattered parts of the country. The idea here is to stimulate a thorough perusal of the catalogue. If a repairman finds his name, he can claim a 25-dollar prize. In the five years since this practice was established, never has a reward gone unclaimed. Other repairmen prompt the winner if he himself should be remiss. Now Olson Radio has decided to establish Olson Radio and TV Servicemen's Awards. Each year, three 100-dollar cash awards will be made to the best examples of heroism carried out by full-time or part-time radio and TV repairmen while on their rounds. Qualified reports will be solicited from trade and consumer press editors, members of the clergy, educators, police officials and other public officials.

In retrospect, it would seem that Olson Radio Warehouse has mustered sufficient energy and imagination to grow in a field which constantly has new entrants and failures. It is not a very big business, and it is not even the largest in the industry. But Olson Radio has managed to define who its customers are, what their needs are, and how to get them to come to Olson Radio. The final proof of this is the recent decision to open another mail-order plant outside the Akron area. In five years Olson's volume has increased twice as rapidly as the total volume of the entire electronic parts industry. By any standard, this is an achievement. ■

Economics in Action

steady as she goes

The American economy moved majestically and imperturbably, with perhaps too much stability, into the autumn months. It encountered a scattering of squalls and teapot tempests, but it has long since got used to them.

rainy season

The stock market furnished the biggest, windiest summer storm, but its private distress of July and August damped little besides incautious speculators. Business paid slight attention to their distress in its planning for the rest of the year, while the consumers bought expensive bathing suits and portable television sets, and went off on vacations that cost too much.

a paradox

Employment reached record levels and other bull factors were bigger than ever. There was, however, one important if paradoxical exception to this bright picture. With unemployment still low at 3.3 million and money extremely tight, one would normally expect industry to be operating at full plant capacity. Yet the experts assure us that industry is at present operating at only 80 per cent of full capacity. Judging from its current spending for new capital plant and equipment, industry does not expect this situation to persist. It is clearly betting on an expanded market to absorb all the available capacity.

shortage of key personnel

Employment experts are plotting long-range shortage expectations in a number of occupational areas. Many kinds of machinists and other highly trained industrial workers are in short supply and will remain so for a long time. Some excessively sanguine seers were planning on an end to the engineer shortage, but a more realistic view prevails. A significant shortage remains and, such elements as

the increasing technological demands of the domestic economy and competition with Soviet Russia, which is turning out many more engineers than the U. S., will keep that shortage with us for a long time.

government in the economy

It is impossible to predict government expenditures with a straight face. Yet they will have, as usual, a resounding effect on the national economy. Congress refused to give the Administration what it wanted in its prerecess budget decisions. But the budget is as soft as the nay was obdurate. So many expenditures can be rescheduled, so many reductions can be cancelled by supplemental appropriations, so many unspent dollars from past appropriations are nesting in the various government departments, that government spending may bulge out bigger than ever in the coming months. A Soviet scare or two—new advances in nuclear or missile development—can keep expenditures rolling along. It would be safe to assume that the government will spend more than it says it will spend. At its most parsimonious, the government is a bull in bearskin.

sag with a bounce

The seasonal sag has shown a surprising elasticity. Last year's figures were exceeded by a whole series of factors like gross national product, personal income, personal consumer expenditures, total employment, business fixed investments—and prices.

more inflation

No one is happy about inflated prices, but almost everybody is deriving at least secret benefit from some of their effects. The tight-money policy has given signs of slowing the rate of increase without producing any generalized depressive effects. But the restoration of an always precarious balance is imperiled by the domino effect. Past price increases have reduced buying power and given unions a strong bargaining point in their new negotiations. A round of wage increases of the magnitude that labor has got into the habit of expecting is bound to give the

inflationary spiral still another hard spin.

local scene

Another, little-regarded class of governmental expenditures has been intensifying the upward pressure. State and local governments have been increasing their outlays at a steadily quickening pace. They are pouring a lot of money silently into key economic activities. It is the communities who are trying to catch up with school needs. The states are feverishly trying to build the roads that will afford a measure of hospitality to Detroit's six million annual automobiles, and we can be sure that improved traffic facilities will result in greater car desirability—and sales.

* * *

a quiet revolution

WASHINGTON—A quiet revolution in the pattern of defense expenditures has been going on for some time now, but publicity about the layoffs in shipyards and aircraft plants developed only recently. There is more to this than economizing. The defense effort cannot be made to cost much less than in the past, but the labor force employed will be substantially reduced.

the big headache

Methods of waging war have been drastically altered. Push-button warfare, missiles and the like are taking over. The production of such devices requires capital-intensive industries, not labor-intensive ones. This will not affect the whole economy, but a quarter of a million workers will have to find new jobs in other economic sectors. Most will be absorbed by service industries. Washington's big headache is to make the changeover gradual, yet not hurt the arms program.

complicated picture

Middle East expert Loy Henderson came back with Turkish fears and Syrian assurances ringing in his ears. Serious border disputes still exist between the two countries, and Russia, as a new friend, will

egg on Syrian nationalism. Turkey is our ally and will stand firm against Russia. She wants definite assurances from us, but the Eisenhower doctrine cannot cope with the ostensibly domestic turn of mind that took place in Syria. The oil pipelines traversing Syria complicate the picture. If quiet negotiations do not work, a new statement of Middle East policy will be forthcoming from Washington.

burning the midnight oil

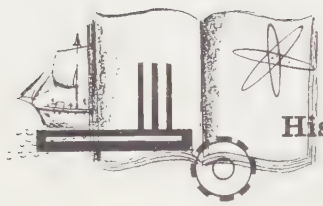
The Congressional insistence upon cutting one billion dollars from the President's original request for foreign aid makes it difficult to deal with the "Syrian crisis" on a purely assistance and aid basis. The era of big money spending abroad is over, and an aid approach does not fulfill the need for major policy revisions in any case. Our Middle Eastern troubles stem partly from our being identified with Britain and France. The midnight oil is being burned to meet a new shift in the balance of world forces. How to stand with our allies in the West and still preserve our identity as a friend to Arab nations is our problem.

family of nations

Communist China is slowly being rehabilitated among the family of nations. Recognition by Japan is not far off, and this will force the U. S. to review its whole China policy. The exchange of newsmen will keep China in the headlines. Pressure from allies will mount for Chinese entry into the U.N. If the Chinese economic dependence upon Russia alone can be broken, the U. S. might reconsider in time.

the struggle goes on

The struggle for power in the Kremlin has passed the crucial stage. That is why disarmament talks have ended. Khrushchev has survived a bad scare and is unlikely to consider disarmament important until a grass roots demand takes place. For the moment the Russians claim they have a potent missile. When missiles of other nations are sent aloft with the frequency of nuclear tests, then serious talks will be resumed. ■



The Permanent Frontier: No. 1

History of the American Economy

American history has its origins in Europe's Renaissance

AMERICAN HISTORY does not actually begin in America; it begins in Europe long before Columbus discovered what he thought was the "Indies" in 1492. In order to understand some of the concepts and ideals which have contributed to the making of contemporary American society, we must go back to European history. It was in Europe, after all, that most of the political, social and economic institutions that we regard today as typically American first originated.

Most anthropologists tell us that the American continent was first settled somewhere between 25,000 and 40,000 years ago. The first settlers migrated, they believe, from the Gobi Desert in Mongolia across the easternmost promontory of Siberia and so across the Bering Straits to Alaska. In succeeding millenia, these tribes migrated over the entire American continent. In time, they split up into nations and developed a variety of cultures. They learned to weave cotton, grow maize, build canoes and preserve the skins of animals they hunted. Many of the tribes had remarkably complex political organizations. And in the case of at least three Indian nations, the Maya, the Aztecs and the Incas, they achieved a degree of civilization which, in some respects, was superior to anything the Europeans could bring with them.

And yet our schoolbooks are essentially correct when they date the beginning of our history with Columbus' discovery in 1492. For what followed that discovery was not materially influenced by the culture of the original inhabitants. True, Europeans learned to smoke (perhaps a dubious blessing), to cultivate corn and to eat potatoes. But in other respects the European "invaders" were remarkably little affected by the habits, beliefs and institutions of the "native" populations. Indeed, rarely before in history have the conquerors been so mildly influ-

enced by the culture of the conquered. U. S. history, today, is essentially the history of Europeans who adapted themselves to a new and exhilarating environment and so created a distinctive "way of life."

Even so, it will be the theme of this series on the development of the American economy that there is something uniquely different about the kind of society we have created. Perhaps, the most characteristic feature of American life has been the constant presence of and response to a "frontier"—at first, a geographic frontier which offered the enterprising the opportunity of escaping civilization and building a new and unfettered existence for themselves; and, later, when that geographic frontier disappeared at the turn of the century, an ever-expanding technological and economic frontier which gives no indication of ever being closed.

In a very real sense, however, we owe our national existence to the opening up of a new frontier *in Europe* which predates Columbus. After all, Columbus was not the first European to discover America. In the 11th century a group of Norsemen discovered Greenland and, later, actually explored the Canadian coast going as far south, historians tell us, as the Gulf of St. Lawrence. But nothing happened. The Norsemen returned and soon even they had forgotten all about their explorations.

Why did the same thing not happen in 1492? Why was there such a widespread interest at that time in journeys of exploration and discovery? Clearly, no simple answer to this sort of question is possible. But we can suggest what to many historians seems the most important factor: the opening up of new horizons in Europe.

Historians have called this opening up a "renaissance," or rebirth. Actually, much more than a rebirth, or revival of learning was involved. What happened in Europe at the beginning of the 15th century and ending in the early 17th century was a vast transformation in both the European way of life and in the ideals and aspirations for which men strove. During this period, the feudal system, with its self-contained manors and its rigid hierarchical social structure, gave way to an exchange economy in which the trading middle classes came to play an increasingly important role.

These middle classes, moreover, had a fundamentally new attitude toward the world around them. Life, for them, was a great ad-

This is the first article of a series to appear in CHALLENGE which will deal with the history and development of the United States' economy.

venture in which initiative and enterprise found their rewards in the good things of life—and by these, they meant the things that money *can* buy. Not for them the medieval sacrifices and rejections of worldly pleasure in favor of eternal bliss in the hereafter. The new middle classes were very much of this world and they were impatient to enjoy all that their temporal existance could afford.

New psychology

It was this new psychology which, more than any other factor, explains why the Renaissance was accompanied by the age of exploration, which in turn was followed by the age of colonization and settlement. As the feudal organizations of medieval society were replaced by new national states ruled by kings and supported by a rising middle class, the size and effectiveness of social organizations once more expanded. These new states enabled the middle classes to identify the public interest with their own. According to prevailing mercantilist theory, the major function of trade was to enhance the power of the state, and incidentally, of the state's subjects—particularly, the traders. Thus, the mercantilists believed in the necessity of obtaining a favorable balance of trade (a surplus of exports over imports) because they believed that there must always be more gold coming into a country than leaving it. This policy was maintained even though it obviously restricted the possibilities of private commerce.

In line with this theory, merchants eager for profit were encouraged by the state to look across the oceans to unexplored and virgin territories where gold might be found. Gold, indeed, occupied an enormous place in the daydreams of merchant princes and statesmen. The legend of *El Dorado,* the mythical country of the Golden Man, teased a whole generation of adventurers into risking life, limb and property.

But, important though it was, the search for gold by courts and counting houses does not really explain the role that the Renaissance in Europe played as the first frontier in American history. Rather, gold was a symbol of the new dreams which were stirring the imagination of the middle classes of western Europe. What these adventurers, and the princes who financed them, were really looking for were new horizons to conquer. For, by the end of the 15th century, western European society had reached a degree of progress that called for expansion beyond the territorial limits of the new national states. The new political and economic organization of Europe demanded—and the scientific discoveries of the Ren-

aissance made possible—the realization of the dreams of visionaries, fanatics, saints, scoundrels and others who wanted to build perfect societies free of the injustices and drudgeries of the old world.

It is no accident that the century after the discovery of America saw the publication of such works as Sir Thomas More's *Utopia* (1516), Sir Francis Bacon's *The New Atlantis* (1627), and Tommaso Campanella's *The City of the Sun* (1623)—all seeking to describe the perfect kind of society. The discovery of America —a vast continent of tremendous natural resources untouched, so it seemed, by civilization—opened up a vision of endless opportunities. This, to many Europeans, was the place where a perfect society could be built. In a sense, this dream of America as a "new" society where everything is possible persists even today.

The first adventurers

Who were these first adventurers who, chancing stormy seas, mutinous crews, unfriendly natives and the ever-present fear of the unknown, went after gold, glory and visions? Their names are known to every eighth-grade schoolboy. There is Columbus, the Genoese sailor obsessed with a (geographically incorrect) vision, the Atlantic sea passage to India, in which he tried for years to interest the courts of Europe. Even when he finally succeeded in gaining the support of Ferdinand and Isabella of Spain, and after innumerable hardships (including a rebellious crew), reached the Bahamas, and in a later voyage, explored Central America, he never gave up his dream of a passage to India. Maligned by his enemies—the Spanish governor of the Haitian colony once sent him back to Spain in chains—he died in neglect, almost forgotten.

Or take Ponce de Leon, Spanish explorer and visionary who, according to legend (discredited by contemporary historians), sought the springs of the "fountain of youth," and, in fact, did a remarkable job of colonization and exploration in the Caribbean.

Or, again, there is the poet, scholar and adventurer Sir Walter Raleigh, who sought the fabled *El Dorado* without success but tried to colonize Virginia and North Carolina and acquainted Europeans with the potato and tobacco. A completely different kind of man was the Spanish explorer Francisco Pizarro, who rose from swineherd to become conquistador of Peru, and a byword for brutality and tyranny.

These men, so different in personality and general outlook, had one thing in common: a desire to break the frontiers of the old

world, to improve their lot—to get "outside" of themselves.

What skills, knowledges and attitudes did Europeans bring over with them? In many respects, the American colonizer was an altogether new phenomenon. Unlike the Roman in Britain or Gaul, this new colonizer was not usually part of an army; indeed, he was often not even an official representative.

Reasons for emigrating

Nor, except at the very beginning, did the Europeans who settled in America intend to return home. Home, for them, was usually the new continent, and an ocean separated them from the life they had once known. Not that they were unhappy about this situation; indeed, many of them had emigrated precisely to get away from the tyrannies of the old world. Some, like the English Puritans, had come to enjoy freedom to worship as they chose—and promptly denied such freedom to all who believed differently once they had the opportunity to set up their own communities. Some had come over because they had in some way disgraced themselves and wanted to get away from the disapproval of their neighbors and friends. Others came in search of gold, hoping to return to the old country and spend the remainder of their lives in luxury and ease. But most came for land because they saw in this vast new continent the possibility for leading a richer and fuller life than they had known at home. Indeed, their reasons for emigrating were not too different from those of later immigrants.

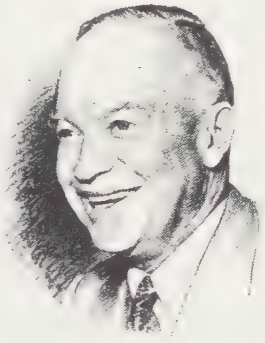
What is important is that these men and women held attitudes towards work, wealth and individual expression which enabled them, in a remarkably short time, to suppress (often brutally) a native Indian population, and to create fairly sophisticated economic systems. Moreover, as we shall see, they tended to be most successful in those instances where the home government allowed them most leeway. Given such freedom, European ingenuity was able to adapt most successfully to the rough frontier conditions of a virgin continent. Small wonder, if individual initiative became such an important aspect of colonial life on the frontiers and continued to exert such a tremendous impact upon American society as it pushed that frontier, in succeeding decades, farther and farther to the west. ■

NEXT MONTH: The early colonial period

Challenge Personality-of-the-Month

Eisenhower as Economist

The President makes the big economic decisions for our country



PRESIDENT EISENHOWER'S economic policy has been most disappointing to the intransigent, whether ultraconservative friend or radical foe, and the blows or embraces they have addressed him have found only void. Their frustration is more a tribute to the persistency than to the perspicacity of human nature; the President has been exactly where he said he would be—in the middle of the road. He has been guided by a set of pragmatic principles based on such typical American qualities as optimism, generosity, fairness, tolerance, efficiency and an unstrained largeness of view.

The more meticulous might rail that Mr. Eisenhower's economic philosophy is very vague. He once told Gabriel Hauge, Presidential Assistant for Economic Affairs, that he was striving toward "conservative dynamism." Hauge spun the term about and suggested that "dynamic conservatism" was what the President really wanted. Mr. Eisenhower stood corrected and used the Hauge variant in a speech before the Republican National Committee in February 1955. It was rather an innocuous phrase in either version, but the President was better in action than in articulation.

At times, however, the action was far from dynamic in its conservatism. Mr. Eisenhower's predilection for private enterprise took specific form in his support of the Dixon-Yates combine as a provider of electric power to the TVA grid. The discovery of a conflict of interests in the case of a Dixon-Yates prime mover helped bring about the plan's abortion.

The President leaned away from the classically conservative attitude in his approach to the mild recession that began in late 1953.

With each issue, CHALLENGE will profile a person whose thinking affects the pace of the U.S. economy.

He was, it is worth noting, supported by the then Treasury Secretary, George M. Humphrey, in revising the tight-money policy and easing fiscal administration, as well as in planning for an emergency public works program. Mr. Eisenhower refused to panic and he prepared to wait for the effect of the monetary and fiscal action before turning the public works plan into action.

Arthur F. Burns, then Chairman of the President's Economic Advisers, defined his chief's thinking at a press briefing on February 11, 1954, with these imperatives: preventive action, no doctrinaire position, stimulation of private activity and fast governmental action if needed. The key was the rejection of constricting doctrines; the President's actions were clothed in the easy comfort of his wide principles.

Favorable signs appeared in reassuring number by March 1954, and the Eisenhower decisions—both positive and negative—were vindicated by the disappearance of the recession by June.

Mr. Eisenhower's struggles with the budget were less successful. His invitation to Congress to cut the fiscal 1958 budget, and Humphrey's Parthian words, did illustrate an excessive executive tolerance of attaint to the Presidential prerogative. But Congress, after vocal violences, rediscovered its distaste for pure economy. Mr. Eisenhower knew how to retreat to victory.

Chance is an important factor, and a study of the President must take into account the Eisenhower luck, which has managed to extract a mean that was always golden. The end of the Korean war gave opportunity for balanced budgets. The succeeding recession was light because of American economic health and European prosperity.

It might appear that the President is more suited to good times than bad. He was startled when the farm problem took on a grave character in 1955; and along with friend and foe, Mr. Eisenhower has failed of a farm solution. Open-end statesmanship has more chance of success when any possible choice of alternatives leaves out unmitigated disaster. In spite of his magnificent military record, one might ask if, in the context of political leadership he could make the hard, half-blind decisions that a real crisis demands.

But the President has made an inestimable contribution with his mollifying, unifying leadership. After the deep angers of the New Deal period and the irritations of the Truman era, he has symbolized the identity of interests of all Americans and so given a greater strength to meet tomorrow's crises.—D.F.

His Excellency

G. L. Mehta

Ambassador from India to the U. S. A.

India: Freedom and Five-Year Plans

Govt. of India Information Service

Q *Mr. Ambassador, during the past 10 years, India has been striving to purge herself of the 19th century, as it were. How far has India come along this road?*

A When India achieved her independence on August 15, 1947, she had many problems, of course—constitutional, political, economic and social. Considerable progress has been made in all these areas.

Q *Have not economic changes occupied much of your attention?*

A Right from the beginning it was clear that something would have to be done about India's underdeveloped economy, an economy characterized by low purchasing power and a tremendous amount of pressure from population growth. So the first task before the Indian government after the adoption of our constitution was to appoint a planning commission to formulate a plan for economic and social development. This commission wrote our first five-year plan which was completed last March. We are now working on the second five-year plan.

Q *What would you say was the primary economic problem which the first five-year plan sought to tackle?*

A Our main problem was to increase the production of food and essential raw materials like cotton, jute and oil seeds, for our industries.

Q *You also have an industrial problem though, do you not?*

A We do. You may not realize it, but we are the eighth largest industrial country in the world and, with the exception of Japan, the most industrialized country in Asia.

Q *You say that India is an industrialized nation. How exactly do you measure this in view of the fact that 80 per cent of the population lives in villages?*

A The fact is that if you take total production, then India is an industrialized country. We have many important industries. Our cotton textile industry is the fourth largest in the world. Our steel production is still small, only 1.3 million tons per annum. But with the additional plants, we hope to boost production to 4.5 million tons during the next four or five years.

Basic industries cannot be neglected

Q *What kind of industrialization does India contemplate?*

A At present, consumer goods industries are, of course, of primary importance. But that does not mean that we can neglect basic industries. A moment ago, I mentioned steel as an example. Now, the expansion of the steel industry is one of the principal tasks assumed by the government because steel is basic to so many of our needs. These needs are not military, for we have no armaments industry in our country. Rather, the steel industry is basic because, although we have all the prerequisites for steel manufacture and can produce the cheapest steel in the world, our current requirements far exceed our current productive capacity. We have to import steel for our railways, for our rural housing, for our big dams and multipurpose projects and for many other industries.

Q *What about basic industries besides steel?*

A Well, we have a fertilizer factory which today produces about 350 thousand tons of ammonium sulphate a year. Even so, we need more fertilizer. We also want some heavy chemical industries. Finally, we want heavy electrical and other machine industries particularly for those industries which already exist in this country—textiles, cement, sugar, and so forth. These industries badly require new machinery for replacement of existing equipment which, in many cases, is some 20 or 30 years old. At present, we have to import most of this machinery.

Q *What would you say is the main obstacle standing in the way of more rapid industrialization?*

A It is difficult to put your finger on one point and say: "This is the main difficulty." We are here confronted with many vicious circles. For example, one of our principal difficulties is a lack of capital resources. As you can well appreciate, in a country like ours which lives on the margin of subsistence, there is not much saving which can be taken over for investment. And without investments we can't build up industries. So we are faced with a kind of vicious circle which cannot be broken without some outside assistance.

Q *This, in turn, sets a limit on the extent of your markets?*

A That is right. Without heavy investment, you cannot produce on a mass scale. But unless you produce on a much larger scale, you cannot reduce production costs. So you have a situation where costs are high and cannot be reduced unless the demand increases, and the demand cannot increase unless purchasing power increases.

Q *How about the shortage of skilled labor? Is this a problem?*

A In certain types of industries and services, it is a serious problem. The absence of much industrialization has led to a labor force which often does not possess the necessary skills. And, of course, low standards of health and literacy also have adverse effects on labor efficiency. These handicaps can all be overcome by raising the general level of the Indian economy and through education. The main difficulty in India today is that we don't have enough capital resources.

Q *Western investors, both private and public, are frequently disturbed by what Indian government officials have called "democratic socialism." Just what is India's basic economic philosophy?*

A Let me say right at the beginning that while our constitution stipulates that we should be a welfare state, this does not mean that we are a totalitarian state. After all, the policies of the British Labor Party and the socialist governments of the Scandinavian countries, or, come to that, many of your government's current policies, involve "welfare state" planning.

Q *How important is the private sector in the Indian economy?*

A We have a very big private sector in our country. It has been estimated that only about eight per cent of the net income made by our industries comes from state-operated enterprises.

Q *And yet you call yours a "mixed" economy?*

A That is right. Now, by a "mixed" economy we mean that there is both a public sector operated by the government and a private sector financed and managed by private enterprise. In India, they are not in any sense competitive: both are essential to our national welfare. The government steps in to do those things which private enterprise is either unable or, because it deems potential profits inadequate, unwilling to do.

Safeguards against expropriation of foreign private investments

Q *Since government often has to step in because private funds are not available, this brings us back to what you have described as the major economic problem facing India, the shortage of capital. Now, some foreign investors and businessmen are unwilling to come to India because they fear that their investment will eventually be nationalized. In general, how well-founded are these fears?*

A I can say this: today there is a remarkable unanimity among all parties (except perhaps the Communists) with respect to economic problems. But there has not been any government policy for nationalizing any of the existing industries.

Q *So you would say that, under present conditions, fears of nationalization are not justified?*

A I think there are adequate safeguards against expropriation of foreign private investments. Our constitution stipulates that there can be no acquisition of private property by the government without reasonable compensation.

Q *What segments of the Indian economy have been nationalized?*

A Well, we have nationalized civil aviation, something which many other countries have done either through heavy subsidization or outright operation. Secondly, we have nationalized what used to be the Imperial Bank of India in order to provide more agricultural credit. And thirdly, we have nationalized life insurance. But there has never been a question of the government nationalizing any of our existing industries. Indeed, it was with the government of India's guarantee

that two of our largest steel plants, the Tata Iron and Steel Company (whose 50-year-old plant is the largest in Asia) and the Indian Iron and Steel Company, have received appreciable aid from the World Bank. Now, the Indian government would never have done this if it did not want to see these private companies expand.

Q *Does the Indian government encourage private enterprise?*

A The government provides various kinds of assistance—equity capital, loans and tariff protection. We also have government-sponsored research and training programs which no doubt greatly benefit private enterprises.

Q *Agriculture is still completely in private hands, is it not?*

A Yes it is. The primary aim of our agricultural policies has been to see to it that those who work the land also own the land.

Q *And trade remains in private hands?*

A That is correct. Although we have recently inaugurated a state trading corporation, the retail trades, and almost all the wholesale trades, remain private.

Q *Are government enterprises taxed?*

A Indeed they are, just like private enterprise.

Q *But then taxes, according to some foreign critics, are prohibitively high. Do you think that they are too high to attract foreign capital?*

A It is true that India is today a heavily taxed country. There is a reason for this. For, if we do not tax ourselves enough, we have no right to ask for aid from other people. To use an American expression, we believe in "raising ourselves by our own bootstraps."

Q *Does the Indian government in any way discriminate against foreign firms within its territory?*

A Once an industry is established in India, there can be no discrimination between an Indian and a non-Indian enterprise. For all practical purposes, such a firm becomes a national enterprise.

Q *What misgivings do Indians entertain about foreign investments?*

A I don't think that today responsible Indians have any misgivings. In our country foreign capital has been historically associated with

foreign conquest. There has always been a fear that foreign capital might become so strong as to impinge on the sovereignty of our country. But there certainly does not seem to be any danger of this in present-day India.

Q *Well, from whom does opposition to foreign capital come?*

A Sometimes it comes from Indian manufacturers or industrialists who are afraid of foreign competition. They know that foreign concerns often have more resources, superior technical know-how, better equipment, and so forth, and they sometimes fear for their survival. Now, our government believes that, where such competition can do good for the country, there is no reason to shut it out. Of course, we have to impose certain limitations. Where, for example, available resources are inadequate, we don't want other concerns to come in and compete for them, because that doesn't really help our economy. Then there is the question of effective demand. Where there does not seem to be a large enough market to absorb the products of the foreign enterprise, we are hesitant to encourage such entry. We realize that Indian purchasing power is still low and that the demand for goods will not respond to price reductions as easily and as widely as in your country.

Q *What is India's attitude toward governmental and intergovernmental aid?*

A Of course, we welcome it. Indeed, we have had over 900 million dollars' worth of aid (either in the form of loans or as grants) during the last six years from the United States.

Loans enable development of self-reliance

Q *In general, what kind of aid do you prefer—loans or grants?*

A Except for such emergencies as flood, earthquake or famine we prefer loans, because that enables us to develop self-reliance. We also prefer that such aid, wherever possible, be channeled through an international agency. We have learned that in this way we do not have to feel under an obligation to any one country and the donor country will not feel that we are showing ingratitude if we disagree on policy questions.

Q *But you do not feel that your freedom of action is in any way affected if you accept assistance from other governments?*

A Of course not. The very fact that we have accepted assistance under the Indo-American Technical Cooperation Agreement or under the Colombo Plan (a cooperative development program of British Commonwealth countries) shows that. Our attitude towards foreign aid corresponds with that of the U. S. government—such aid is given to help us help ourselves. While such aid is necessary to supplement our national effort, it cannot supplant it. No country can retain its initiative and remain dependent upon foreign aid. But while we believe that foreign aid should be marginal in character, that does not mean that it is useless. Indeed, it can often be crucial. When a man is drowned in seven feet of water, it is the last half-foot that might drown him, not the first six and a half feet.

Q *To what extent do you think that India is a testing ground in Asia for the democratic and relatively libertarian way of managing economic progress?*

A Certainly, I think, it would be somewhat presumptuous on our part to say that the Indian experiment will decide the course of events in Asia. Nevertheless, this is the view of many Western experts who have visited India. But, as our Prime Minister has repeatedly pointed out, we are deeply attached to one thing, and that is the democratic concept of society. We do hold certain values dearly—individual freedom, due process of law and the solution of questions through cooperation and persuasion rather than coercion and compulsion. Now it may be argued that democratic means are too slow, that in a country where illiteracy is high and where poverty and unemployment are prevalent, totalitarian methods would bring quicker results. Speaking for myself, I'm doubtful of even that. I think that recent events in many countries of Asia and Europe have shown that totalitarian methods can deal only with the symptoms, not the disease itself. There is a more basic moral question: What price would a democratic society have to pay? We are wedded to democratic principles and want to implement them as much as we can, not because we want your aid, but because we happen to believe in them.

Q *Thank you, Mr. Ambassador.* ■

Everyday Economics

THE TREASURY rules that you *cannot* deduct losses made on sales to your spouse, child, grandchild, brother, sister or parent—whether the sale is made directly or indirectly. But this does not bar losses on sales made to in-laws, nephews, nieces, cousins, uncles or aunts. The general rule, however, implies a warning: (1) Even if you sell a number of properties to a relative at a total break-even price, the Treasury may charge you with separate sales. You'd have to pay taxable gains on some, disallowed losses on others; (2) If you sell to in-laws —though they are on the disallowance list—the Treasury may claim the sale was actually made to the blood relative to whom the in-law is married; (3) If you sell to a third party, who in turn resells to your relative, the loss deduction may be disallowed.

Next month, in this same portion of the column, we shall discuss legal "loopholes" in the disallowed losses rule.

Trick or treat?

PRECAUTIONS are in order. Thirty persons die every day as a result of all fires in the U.S. An untold number of people are horribly burned or maimed. Hallowe'en fires do a tremendous percentage of damage and injury. Illuminate pumpkins with flashlights rather than candles. Use only fireproof decorations. Fireproof costumes by dipping them in a solution of 9 oz. of borax and 4 oz. of boric acid per gal. of water.

The hunting season . . .

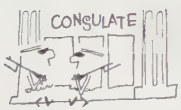
OR RUSSIAN roulette? Although firearms may be stored and handled carefully by many intelligent people, their misuse takes an annual toll in the U.S. of more than 2,200 lives. Nearly two-fifths of the deaths each year occur in the three-month period from October through December. When carry-

ing loaded guns, make sure the "safety" is on and watch your footing; store guns and ammunition out of the reach of children; when shooting at game, or on a range, make sure of your target.

Beware your liabilities

AS A real property owner or a tenant, you may not deliberately continue conduct which you know will be highly dangerous to an intruder. You may take no active steps to injure trespassers, whether you expect them or not. A trespasser is an intruder who, without permission, enters upon someone else's land. Without substantial proof of criminal intent, you cannot, for instance, incite a dog to attack; and if you did, you would be liable for any injury.*

Dual allegiances



A PERSON born in the U.S. acquires American citizenship by birth. At the same time, the country of which his parents are nationals may claim him as a citizen. The law relating to these dual nationals is often complicated. It is therefore quite important for American tourists, particularly if they are of military age, who acquired their American citizenship through naturalization, or whose parents were or are nationals of certain other countries, to inquire of the consular officials of such country of origin whether there would be any danger of their being subject to military service abroad.*

Buttered on one side only

AS AN appliance retailer, your receipts for one-year service contracts are taxable income in the year received. They cannot be apportioned between the two years in which the service will be rendered, even if you report your income on the accrual basis.

Save costs all around

DO YOU forego many of the home improvements you would like to make because you don't own the necessary power tools? You don't have to buy the tools, nor do you have to pay the professional job and labor costs of hiring someone. Floor sanders, wallpaper steamers, concrete mixers, portable generators—just about any specialized tool you'd need—are available for rental from hardware stores, paint stores and building supply dealers. "Consult the *Yellow Pages*" of your phone book under "Tools" or "Tool Rentals."—D.H.

* *The Legal Almanac Series.*

HOW WASHINGTON MAKES *Economic Policy*

by Arthur L. Moore

Economists take over important functions in all key federal agencies

WE TAKE IT for granted that the government is going to influence our lives and pocketbooks in many ways. We expect it to combat inflation, foster high employment, set minimum wages, maintain competition in business, curtail agricultural production—and more. We want it thus to make the massive macroeconomic decisions that presumably will guarantee us the good life.

The key decisions on such matters are made by men whose names are familiar to every citizen: the President, Cabinet members, leaders of Congress. But in the background, playing an increasingly influential role in shaping the decisions, is a group of largely anonymous professional economists whose names are unknown to most of us.

The role of the government economists has changed since they first came flocking to Washington during the New Deal and World War II. In those days, many were anything but anonymous. They became headline figures themselves, in the forefront of social and political controversy. Many stressed reform more than economics.

Today's economist in the public service typically plays a more modest part. He leaves political controversy to the politicians and is content to bring economic facts and logic to bear on policy matters as unobtrusively as possible.

Sometimes his advice is accepted; sometimes it is not. But on the whole he is doing remarkably well. There are some 2,800 economists and economic statisticians employed by the federal government in Washington, and several hundred more in regional offices across the country—more than during any other peacetime period.

Though economic thinking has

made great contributions to government from our earliest days, it was not until Congress adopted the Employment Act of 1946 that it became formally recognized as a tool of policymaking. The Employment Act commits the government to promote maximum employment, production and purchasing power, and authorizes the employment of economists to help achieve these goals.

There is no general staff for government economics, no centralized guidance. Operations are scattered through a score of separate offices in what at first glance is almost a haphazard manner.

Start with the President. He is charged with carrying out policies laid down by Congress and in addition wields great influence through his power to recommend legislation. His special need is for analysis of broad, general trends, and he gets this from two sources within his own White House family. The Employment Act provides him with a Council of Economic Advisers, consisting of three professional economists and a staff of about 30 persons. In addition, President Eisenhower has created a new economic post of great power—that of Special Assistant for Economic Affairs, currently occupied by Dr. Gabriel Hauge.

Then there is Congress with its widely varying needs. It is served by scores of economists employed as staff members by its specialized committees such as labor, housing and commerce. But when Congress passed the Employment Act, it created its own source of broad-scale economic analysis—the Joint Economic Committee.

The Joint Committee is one of the surprises of the Employment Act. It was thought of originally as an almost useless fifth wheel, destined to be submerged by the Council of Economic Advisers. But the Committee and staff now constitute the liveliest economic research unit in government. They explore the impact of such factors as taxation, government spending, automation, productivity, price trends—anything the Committee feels is affecting growth and stability.

In these projects the Committee has devised a unique method of drawing on the country's best brains. As a first step, it asks 30 to 50 leading economists in industry, labor and the universities to prepare research papers. The authors come to Washington to participate in panel discussions. Based on this advance work, the Committee then draws up a report for Congress. Such a report carries surprising weight. A series on tax policy, for example, is credited

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Arthur L. Moore reports on the American economic scene as viewed from Washington for the McGraw-Hill Publishing Company.

with a big role in blocking tax reductions in recent years. The Committee has argued that a tax cut in time of rising prices would add to inflationary pressures—and thus far Congress has agreed.

Broad and exacting

The Federal Reserve Board, with special requirements which are at once broad and exacting, is served by one of the largest economics units in government. The FRB is charged by Congress with adjusting the amount of credit to the needs of business—expanding it when times are slack, allowing it to become scarce when growth is so rapid as to threaten inflation. The Board influences the amount of credit partly through buying and selling government securities in the open market, an operation requiring specialized advice of a delicate and precise nature. The Board's economic division also assembles a number of the statistical indexes used by all government agencies, the most important being its Index of Industrial Production.

Another set of special functions is lodged in the Department of Labor, where the Bureau of Labor Statistics serves as the economics unit. BLS publishes a mass of data relating to employment, wages and hours. Its monthly Consumer Price Index is accepted as the authoritative measurement of changes in the cost of living and is the basis for automatic pay raises and reductions for millions of union workers with cost-of-living contracts. The development of this series from a fumbling and inadequate beginning in World War I to its present universal acceptance is typical of the new maturity of government economic activity.

The Agriculture Department naturally has its own particular needs. The economics section of the Agricultural Marketing Service concentrates on farm prices, incomes, costs of production and other factors of interest to the farm population. It is the only economic unit in the executive branch to make a regular and public effort to throw light on the future. Each autumn it holds an outlook conference in which farmers are told what seems likely to happen in the 12 months ahead.

Comprehensive measurements

This list could be extended to almost every important agency in government. Special economics units are maintained to serve the needs of the Treasury Department, the Federal Trade Commission, the Securities and Exchange Commission, the Federal Power Commission, the Interior Department and the Defense Department.

Underlying all these specialized activities there must be a set of

comprehensive measurements of the economy as a whole. These are provided in the gross national product and national income statistics of the Commerce Department's Office of Business Economics. The OBE figures disclose, for instance, whether investment by industry in new plant and equipment is rising or falling and whether consumers are spending more or less. Knowledge of this kind is essential for wise decisions in such areas as taxation, federal spending and credit policy making.

Each month, the OBE publishes basic data in its publication, *The Survey of Current Business,* a document so useful to businessmen and economists that 15,000 subscribers pay four dollars a year to receive it.

Roughly functional pattern

Though the distribution of economic activities among the agencies does follow a roughly functional pattern, there is no particular reason for some of the assignments—except tradition. Why should the Federal Reserve Board gather statistics on department store sales while the Commerce Department reports on all other retail sales? Why should the Agricultural Marketing Service study retail prices paid by farmers, while the general Consumer Price Index is the responsibility of the Bureau of Labor Statistics? And why should the Federal Reserve continue to prepare the Index of Industrial Production when more logically it belongs in the Commerce Department?

A more rational distribution of duties is possible, but would it in any positive way improve either statistics or economic analysis? It is difficult to see how. Personnel would simply be shifted from one agency to another, and the quality of the work would remain about the same. More serious weaknesses exist.

One is that notoriously inadequate statistics are gathered in some important areas year after year. The government figures on savings, business inventories and construction are particularly bad —not because improvement is impossible, but because no agency has been given the money and the responsibility to do a better job. There is hope that Congress will vote the necessary money over the next several years.

But no organizational pattern can eliminate clashes of opinion over policy decisions. The President, according to the provisions of the Employment Act, sends an annual report to Congress giving his view of business conditions and spelling out policies that he thinks will result in improvements. The law also calls on the Joint Economic Committee to re-

view this message and to make a report on it to Congress. The opportunity for disagreements abounds in a mechanism of this kind, especially when Congress is controlled by one party and the White House by another, as in recent years. Important areas of conflict will remain despite the enormous improvements in income analysis. Public opinion itself, guided by political leaders and economics experts, must make the great decisions.

Interpreting trends

The economists involved in advising on policy—the President's Council of Economic Advisers on the one hand and the Committee staff on the other—have disagreed on minor points. But on the basic task—that of interpreting trends affecting employment—they generally agree. In practice, therefore, their influence has tended to minimize sloppy economic thinking that sometimes gets entangled in political rivalries. In the future, we may not be so fortunate. It must be emphasized that we have had unbroken prosperity since the war. A depression would mean a greater test.

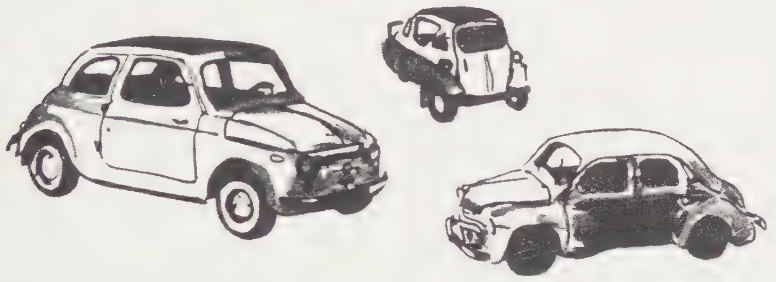
A possible source of policy confusion lies in the relationship between the Federal Reserve and the President as head of the executive department. The Federal Reserve by law is independent of the President. It is therefore possible that some day the Federal Reserve would be pursuing one policy and the executive department another.

In actual experience, nothing like this has occurred. True, the Council of Economic Advisers has disagreed at times in recent years with the Federal Reserve's restrictive credit maneuvers—though not, it should be added, with the general wisdom of using tight credit as an anti-inflation device. Except for easing mortgage regulations to aid the housing industry, the White House has supported a tight money policy. If a deep and harmful split ever does occur, Congress has the power to settle the issue with a declaration of policy that would be binding on both parties.

It is sometimes suggested that the way to minimize these risks is to create one master agency—something like a supreme court of economics—with authority to draw up a single policy guide for everyone in government.

If this were done, something valuable would be lost from the present system. As things now stand, the work of one unit is constantly subjected to critical analysis by others. The exchange of views between shops, the arguments, rivalries and even the jealousies tend to strengthen government-sponsored economic activity in the long run. ■

Foreign automobiles gain sales here because they ignore "standard" American taste in car design



Lilliputian Invasion

by James U. Steinfirst

THE BEST marketing brains in this very self-contained country of ours are baffled by the phenomenon of European car popularity. Some automobile men will bet their reputations that the big sales of small cars are just a passing phase. Others are profanely positive that the invaders will influence American designing away from its too large, too powerful and too expensive cars.

The strange part of it is the bitterness which so often marks conversation on the subject. It is so easy to hear the Europeans violently condemned in every way and equally easy to hear our own designs scorned by sellers, buyers and presumably neutral newspapermen.

But the desire for something different, handier and more economical has produced a booming small car market, and European companies are cashing in on it. U.S. sales of European cars have climbed from 16,000 a year just after the war to almost 100,000 in 1956. The figure should be between 150,000 and 200,000 for 1957.

Who buys the small cars and who does not? The sports crowd and the snobs love them. But quite a few practical people are also buying them for heavy traffic areas. Kansans, however, are not interested, probably because of widely scattered parts stocks and repair shops. Canadians prefer big cars because they have big families and like to travel fast to go hunting and fishing. These assets apparently outweigh the superior ground clearance of many of the European vehicles compared

with out low-slung boulevard specials.

Justified reluctance

General Motors, as recently as December 1956, officially discounted small cars and then felt forced to change its mind. It was able, however, to reverse itself with minimal strain by using its foreign subsidiaries. Importing British GM Vauxhalls and German GM Opels is its solution.

American manufacturers can point to many small car failures in the past as justification for their reluctance. The small Hudson Jet lasted just one year, in a recent American effort. Just before that, Willys turned out a delightful automobile, roomy but very compact. Its failure was the third in Willys history, coming after such short-lived experiments as the Americar and the ugly Willys 77. Back in 1940 Buick brought out a companion Series 40B, commenting: "Now you can fit a Buick into your garage!" The American buyers preferred bigger garages. But the fact that foreign cars gave the lie to historical logic is another illustration that you can take nothing for granted in business.

The only native American success in recent years is the American Motors Corp.'s comparatively small Rambler. Even so, it yielded to American influences and got bigger, reaching a wheelbase length of 108 inches compared to the 1957 Chevrolet's 116 inches. The latest word, however, is that the European influence has bounced back: AMC engineers are bringing back a two-door car on 100 inches but leaving the four-door Rambler sedan with the 108. Wheelbase is only part of the proportion. A Vauxhall with 98 inches is considerably shorter than the Rambler because the Rambler has the typically airy overhang of American cars.

American Motors is also importing a vehicle manufactured abroad as a smaller companion to the Rambler. But its two-seater Metropolitan, made in Great Britain by Austin, is hardly having a revolutionary effect on the market, with monthly sales running under 1,000, compared to the Rambler's 8,000 plus.

The production of a real small car in the United States remains problematical. American manufacturers maintain that the materials bill and the labor costs are not much less than for a big car. Expert press observers feel, however, that a complete job from the tire treads upward, with every effort strained toward economical design and production, would work. But the critics are not the producers.

James U. Steinfirst is editor of *The American Automobile, a* McGraw-Hill publication.

And no one, to date, can prove that it is possible to sell six million small cars in the U. S. A.

European labor costs are lower than ours, but that is not the whole story. Production techniques in Europe, unlike American methods, are fitted for small cars. Most European vehicles are designed from the start for easy production, with unit construction instead of a separate chassis and body. It is true that Nash-Hudson has the unitized construction and that other American manufacturers are planning to change to it, but there are other European engineering features that are similarly appropriate for low-cost production.

"What do you get?"

You can buy about a dozen makes of the smaller foreign cars for less than $2,000. They range from the one-cylinder Isetta from Germany, with its door in front, to the English Hillman, a shade smaller than the Vauxhall. Others are Germany's sturdy Volkswagen, the Renault and Simca from France, the Czech Skoda, the English Morris and the Swedish SAAB. Fiat of Italy is optimistically planning to export a tiny Fiat 500 to sell at a little over $500, half of the Isetta price.

Europe also sells us more expensive vehicles—the conventional passenger and various sports makes—but they comprise only one-fifth of the total foreign contingent. The Rolls Royce, Jaguar, Mercedes and Borgward Isabella, appeal to the unusual taste and have no relation to the small car-big car controversy.

What do you get in a small car? There are the obvious advantages: lower—but not very much lower—price, traffic convenience, low fuel and oil costs, and increasing trade-in recognition. Indeed, Volkswagen, sales champions with more than 50,000 sold here last year, have a higher used car price for recent-year models than the original purchase price because U. S. deliveries are months behind orders.

Of course, you get disadvantages in a small car. You may be a little cramped for passenger and luggage space. You must shift a lot through three or four forward speeds, and you will have servicing problems with some makes in some areas. You feel the joints between road sections of concrete, but you do not feel bad bumps and holes. Suspension is excellent, and steering, brakes and road holding are all that you want. And you do not have to worry that the car's rear projections, like the American tail fins, will pick up trash cans as you back toward the curb in parking.

Consider some of the nonsense that foreign cars do without.

There are the fancy instrument panels in our American cars that seem carefully placed to whack the knees. The wraparound windshield distorts the view and actually increases the blind area at the driver's near left side. The driveshaft tunnel is so high that a lady is no lady when she gets her feet up on it. The low roof blocks out rear mirror vision when you have a passenger in the middle.

It is rather too bad that we have to go abroad to get sensible features. We could produce such cars if we concentrated more on practical designing and less on supercharged hard sells. But maybe the perfect car would require fewer changes. Maybe the manufacturers would not be able to sell as many to the man on the suburban train who said: "I spend about $2,500 a year on a new car. I don't care what make, because they're all all right. But it has to look new."

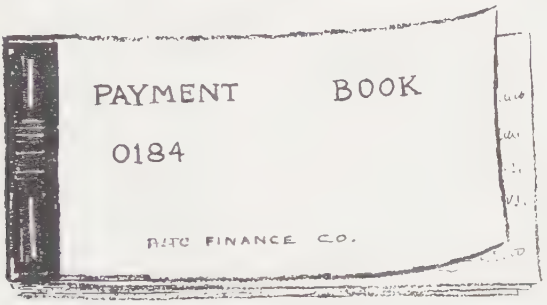
The European cars are here to stay. I am not yet prepared to go along with those who predict sales here of a half million a year, but the boom continues. The European cars will be slowly changed to meet American needs more precisely—the real needs and not what advertising men say we want. Americans would be willing to sacrifice some traffic convenience and economy for greater roominess and luggage space. We could make cars that would appeal to the people buying the foreign cars. But I do not believe that the American manufacturers will actually do it. The example of American Motors with its Rambler is not successful enough to lead a parade when Chevrolet and Ford sell almost two million each of bigger, more powerful models.

The fact is that most American car owners like the American car pretty much as it is; they want the cushiony comfort its size gives, while its rakish gaudiness is ammunition in the battle to keep up with the neighbors. Sensible convenience and low prices will continue to be imported for the unaverage American. ■

Where To?

ONE OUT OF every seven workers in the U.S. is employed in highway transportation. Approximately 5.6 million men drive trucks and buses. More than 1.9 million trade in and service motor vehicles. Another 280,000 work for highway departments. Production of motor vehicles, parts and tires occupies more than 900,000 workers, and some 600,000 work in associated industries and services (such as insurance, financing, battery manufacture). Some 300,000 are engaged in producing gasoline and oil. Three-fourths of American families own automobiles, and they travel more than six billion miles a year.

Consumer Debt: Who owns it?



by Kurt F. Flexner

An amazing variety of credit facilities have emerged to finance the insatiable desire to buy on time

CONSUMER CREDIT is a good thing, but it is presently handicapped by archaic laws. It first became a significant part of the nation's economy during the 1920s. Since then it has been woven into the structure of an American progress which has taken the form of urbanization, rising incomes for the majority of consumers and the production of durable and relatively expensive consumer items.

The purpose of consumer credit is to enable the consumer to enjoy his income *before* he actually earns it or receives it. This practice is, of itself, by no means unsound. Such credit may actually improve the consumer's long-run as well as short-run position. Nor is the reduction of his future, uncommitted income a valid argument against borrowing. Frequently income received in the present is valued higher than future income since the flow of income may not coincide with the flow of expenditures, even under the most favorable conditions. This is a major reason why even the most prudent person is willing to pay interest.

Saving in advance is, of course, usually cheaper than borrowing, but it is not always possible or desirable. Sickness may come without warning, and debt may be unavoidable. Farmers receive income at irregular intervals and must finance expenditures between crop sales.

Borrowing also enables people to lead fuller and more pleasant

lives. Home ownership is usually possible only by going into debt, but the enjoyment of a home early in life may more than offset the credit cost. The credit element of home ownership is often supplemented by home repair or improvement—also on credit.

Many people are unable to save except under contract—that is, through the repayment of debt. Only thus can they arrive at the ownership of such costly durable items as automobiles, refrigerators and washing machines. This form of saving, through the repayment of debt, has a salutary effect on the character of purchasers. People who require such help in saving might otherwise spend too much money on nondurable goods and temporary pleasures. In impoverished postwar Germany the night clubs were jammed because there were not enough durable goods to buy. Without making value judgments about the merit of durable and nondurable consumer goods, buying on credit does make it possible for the consumer to choose wisely between the two.

Today, the majority of Americans take consumer credit for granted. Its rise in the past few years has been dizzying—and has been responsible for the fear of some economic observers that we are overextending ourselves. In 1939 total consumer credit was 7.2 billion dollars; last year it was 41.8 billions.

Other possibilities

Part of the fears were inspired by the amount of consumer credit granted by retail institutions. The man who stands to make a profit on the sale of a certain good is strongly tempted to make credit conditions as easy as possible. Pessimists have been asking if too much of our consumer credit was not based on bad credit risks accepted by overeager sales policies. It is a fact, moreover, that consumer credit granted by retail outlets has risen from 3.4 billion dollars in 1939 to 11.4 billion dollars in 1956.

While retail credit has tripled from 1939 to 1956, consumer credit offered by commercial banks has multiplied eightfold—rising from 1.7 to 14.7 billion dollars. Indeed, retail credit, which had been the most important single source of consumer credit, relinquished the lead to commercial banks in 1956. In that year, retail outlets held but 27 per cent of total consumer debt, against 35 per cent held by the commercial banks. Sales finance companies, personal finance firms and credit unions accounted for the remainder of the consumer debt.

Kurt F. Flexner is Associate Professor of Economics, New York University.

The lead of commercial banks is as much due to their greater desire for this kind of business as it is to the improved credit rating of a large part of the population. The great increase in the volume of money in circulation and the simultaneous increase in corporate self-financing has forced the commercial banks to seek new investments for their funds. They have made important inroads in mortgage financing, automobile credit and other consumer lending.

Restraining factors

Will commercial banks widen their lead appreciably in the future? No one can be sure, but certain restraining factors can be observed. In spite of the variety of sources from which a consumer may borrow, for many individuals the field of choice is really quite limited. In practice, the purpose of the loan, the borrower's credit rating, the availability of credit institutions, and plain habit largely determine a consumer's actual choice of credit institutions. A borrower who qualifies with a personal finance company may not meet the requirements of a commercial bank. On the other hand, the legal limit on the size of loans which personal finance companies may grant, prevents them from financing the more expensive consumer purchases. Banks frequently require comakers and this can be an obstacle to many prospective borrowers, who, as a result, are forced to use another source of credit.

Retail credit does have many advantages. Department store credit, for example, is in fact very convenient, and it is available to anyone who qualifies for bank credit. The "charge it" attitude has become a habit which a small interest rate differential, if it does exist, can hardly affect. Hotels, railroads, restaurants and other service industries extend credit in a way that is much more convenient than a bank loan.

Strong competition

On the other hand, the commercial banks themselves may find other investments more attractive than consumer credit. A business loan of 50,000 dollars is much less trouble than 100 consumer loans averaging 500 dollars.

What other possibilities for extending consumer credit exist? There is a solution that does not overextend the commercial banks and at the same time keeps down the proportion of credit given by retailers. This would be to make more effective use of savings banks, and savings and loan institutions.

Many states have inadequate consumer credit facilities because their laws have not yet been revised to conform to modern con-

ditions. Savings banks in most states, where they exist, and savings and loan associations in all states may not make consumer loans in the real sense of the term. A savings bank in New York, for example, may make a loan against a deposit, but this is more in the nature of a temporary withdrawal than of true consumer credit.

Medium-term credit

Consumer goods purchased with installment credit are generally paid for within a two-year period and are, therefore, financed with medium-term credit. Savings institutions, whose entire deposits consist of thrift and time accounts, are in an excellent position to make consumer loans.

These banks and associations already satisfy two of the principal banking needs of the American consumer with thrift accounts and home mortgage credit. Consumer credit would be a logical addition to their functions and would enable a family to save and to finance its home and consumer purchases in a single institution created to deal with the consumer. It would also help savings institutions to operate more in accordance with sound market principles. Such principles, as applied to banks, require that they be permitted to invest in as many enterprises as is practical for them and consonant with the public interest.

A possible alternative to consumer credit at the retail source lies in the establishment of bank credit which a consumer may afterwards use for his various purchases. A *letter of credit* similar to those used by travelers abroad might serve the purpose.

Thus, archaic laws must be revised in order to improve the health of the consumer credit situation. In any case, it is strangely illogical that retailers, whose interest can lead them into doubtful loans, are permitted to operate in a field closed to such structurally prudent institutions as savings banks, and savings and loan associations.

What is the public interest in this matter of consumer debt? For the individual borrower, cost and convenience are the principal considerations. For the credit institution, security and volume returns are most important. But what about the nation as a whole? There can be no question that the rise in consumer debt has helped provide a better life for many individuals. But it has done more than that. It has helped our economy expand on a mass production-mass market basis. The market for many products depends upon the availability of credit. Our job is to keep this credit on a firm foundation while permitting it to expand in rhythm with a growing economy. ■

Occupational Revolution?

by Charles D. Stewart

The shift in employment from production industries to service industries describes a long-standing trend, not a revolution

TWO DEVELOPMENTS in the occupational and industrial distribution of the American labor force since the end of World War II have been described both as symptoms of economic vitality and as portents of economic problems ahead.

•More people are working today in white-collar jobs than in blue-collar jobs or in any other broad category of occupations.

•More people are now employed in service industries than in industries that produce goods.

Obviously, these two developments are related. As one might expect, there is a higher proportion of white-collar jobs in service industries than in such fields as farming, mining, manufacturing or construction.

Do these facts mean that production and consumption patterns in the United States are becoming oriented predominantly to services? Those who believe it does, point to the relative stability of the manufacturing sector during the last five years, a period which saw trade and service industries provide most of the expansion in employment. With rising incomes, so the theory goes, consumers will spend more and more on services.

But there are other facts that do not seem to fit into this kind of explanation. In terms of output and expenditures, there has been no marked shift to service industries. Thus, in 1956 services comprised almost one-third of the gross national product, no more than in 1929, and this largely be-

cause prices for services rose more rapidly in recent years than other prices. Similarly, the figures for income by industry show that while manufacturing and construction have continued to grow in importance, service industries have generally decreased over the years. Even more surprising, perhaps, the American consumer spends a smaller proportion of his disposable (after tax) income for services than in 1929. The tax-financed services have been growing faster than the consumer-financed services.

How can we explain this apparent paradox of rising employment in service industries on the one hand and relatively stable output and expenditures for services on the other? Part of the answer may lie in the fact that productivity tends to rise more rapidly in industries that produce goods than in service industries. This means that labor requirements per unit of output decrease relatively more slowly in service industries. At the same time, expenditures would increase more rapidly in the goods-producing industries.

Artifacts of statisticians

Actually, how meaningful are descriptive statements like "more workers are now producing services than goods," or "white-collar workers are becoming the largest occupational group?" Such classifications as "service industries" or "white-collar workers" are, after all, the artifacts of statisticians and, important as they are for purposes of measurement, they are necessarily crude and contain many heterogeneous categories.

Thus "products" and "services" shade off into one another in both employment and national income statistics. Housing is a good example. One of the largest components of service expenditures is for housing—a durable "good" which is understood to give off "services" as it is used by the consumer. If I own my own house, for reasons of the necessities of national accounting, the imputed income (what I would earn if I rented it) is counted as part of my income and also as part of my personal expenditures for services. But all commodities give off services in some such fashion. It would be equally logical to regard washing machines, television sets and automobiles as service expenditures, particularly since these may be substituted for recreation or for other service expenditures.

Or take some other "statistical" difficulties. Most people would regard medical care, education, religious activities and movies as "pure" services. But the line is

Charles D. Stewart is Deputy Assistant Secretary for Standards and Statistics, U.S. Department of Labor.

often difficult to draw. According to the statisticians, films are a service, but books, magazines and newspapers are not.

Service expenditures often reflect not only higher standards of living but also certain burdensome costs of living in a modern society. Most people would be somewhat reluctant to consider as pure "services" (enhancing our sense of well-being) such things as commuting to work, servicing of durable goods, litigation costs and burial expenses.

Underlying tendency

But despite the statistical difficulties, the trend toward services does describe a continuation of an underlying tendency in our economy, though hardly an economic "revolution." The process is more significant than the statistics are meaningful.

Broadly speaking, the shift in occupations which we have described is the direct outcome of technological innovations and the social and cultural consequences of such innovations.

Thus, no single development has had greater effect on the composition of the labor force than the reduction in the proportion and number of workers required to produce foods and fibers. As late as 1870 more than half of those gainfully employed in the U. S. worked as farmers. By 1910, the percentage had declined to less than one-third, although the actual numbers of farmers continued to rise until then. Today, only about half as many persons are employed in agriculture as in 1910, and the proportion has dropped to one out of 10. No other single fact explains as well the reason for the persistent decline in labor requirements for the production of goods or for the increased employment opportunities in services.

Another important factor is the growth of government functions. Today, one out of 10 gainfully employed individuals is engaged in public service. This is not an accidental, or perhaps even an avoidable, development in the maturation of a modern economy, even an essentially private, free enterprise economy like the United States. Industrialization brings with it urbanization as well as rising real income, thus necessitating *and* making possible the financing of social services by government.

Thus, the reason why there has not been any substantial change in the percentage of income spent by consumers for services since 1929, in spite of the rise in per capita income, is the increase in tax liabilities for services provided by government. Excluding national defense expenditures, there is a persistent tendency toward more services of a kind that

state and local legislative bodies as well as Congress believe have a first priority on the income of citizens.

Finally, increasing specialization results in the proliferation of occupational and industrial functions. This is especially true in the private sector of the economy where the market affords a testing place for the economic efficiency of "better" and cheaper ways of doing things. Many of the service indsutries are, in fact, conglomerations of establishments performing specialized functions connected with the production of the goods consumers want to buy, which require specialists to design, to merchandise and, unfortunately in the case of durable goods, to keep in repair. The shoemaker, for example, is no longer his own salesman, advertising man, financial accountant, teamster and repair man.

Level of skill

In the long run, the level of skill of the American labor force will be more significant than any changing balance between goods and services.

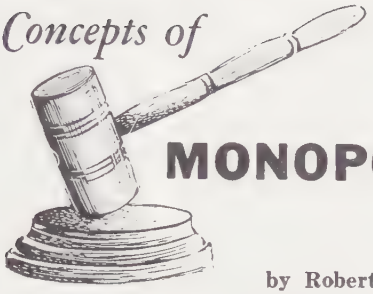
Although classification of skills is a hazardous business, there is little question that the general effect of technological progress has been an upgrading of the skill structure. Machine technology has substituted the semiskilled operative for the skilled craftsman in many situations. But while the semiskilled operative has gained in relative importance, this shift has been at the expense of common labor both in agriculture and industry. The skilled worker has maintained his quantitative importance in the occupational hierarchy. Automation is likely to continue this process, with the skilled worker increasingly indispensable for the economy.

For the future, the rate of economic growth depends on the research and development which makes for innovations, and on the availability of skilled workers in all occupational strata so that the innovations can have pervasive effect throughout the whole economy. ■

Answers to Challenge Quiz

(1) True *(see page 17)*
(2) False *(see page 21)*
(3) True *(see page 63)*
(4) True *(see page 71)*
(5) False *(see page 13)*
(6) False *(see page 8)*
(7) False *(see page 59)*
(8) True *(see page 45)*
(9) False *(see page 25)*
(10) True *(see page 54)*
(11) True *(see page 38)*
(12) True *(see page 67)*

Changing Concepts of MONOPOLY



by Robert A. Solo

Recent Court decisions have broadened the class of antitrust offenders

JUSTICE LEARNED HAND, in his historic decision of 1945, ruled that a firm could be guilty of antitrust violations even if it never committed an overt act or entered into a conspiracy. "Congress did not condone 'good trusts' and condemn bad ones," wrote Justice Hand in his ruling which had the force of a Supreme Court decision. "It forbade all."

The Court had taken this turning in 1945, but it was reaching no restful destination. Until then, the courts were concerned solely with conspiratorial and coercive acts designed to restrain trade. In deciding that monopoly, as a species of economic power, may inhere in market conditions even when it is not used to coerce competitors or customers, the Court was vastly increasing the problems of adjudication and enforcement. For, to implement the law in its new interpretation required that the monopoly power be first discerned and measured; the organization giving rise to it must also be restructured. Much of this falls into the province of administrative action.

The Court has evolved its conception of the nature of monopoly in piecemeal fashion, in terms of the real problems brought before it.

Initially, the judges and the economists thought of monopoly as a deviation from the natural state of affairs. They assumed it could be organized only with difficulty through conspiratorial acts or destructive operations aimed at competitors. It seemed enough to eliminate these to insure competition. Thus the Court stopped the antitrust attack on United States Steel in 1920: "The law does not make mere size an offense. It . . . requires overt acts. . . ."

But the 1945 ruling did make size an offense, *if its mere existence implied monopoly power.* "The

curse of bigness," as Justice Louis D. Brandeis had called it, was at last subjected to judicial censure.

Adam Smith, in his great *Wealth of Nations,* formulated the classic argument for the free competitive market. Then government support of private monopoly was the issue. The old Scot knew better, but later followers believed that, if left free, the invisible hand of private gain-seeking would insure the full triumph of competition. In removing state intervention, they got rid of government monopolies and restraints, but they also eliminated the ancient common-law protections against private monopoly.

Counter-reaction

The results of such policies burgeoned in the United States in the latter part of the 19th century. The trusts proliferated into great combines through fiercely coercive practices. The counter-reaction had to come. The age of trusts brought government back into economic affairs to protect competition from the onslaught of private monopoly. Laws were passed, new precedents were established and various agencies of government arose to grapple with the most recondite variants of trust organization. The duel has continued down to today with ever-developing refinements.

The courts and the administrators must now deal with a series of dilemmas. For society wants effective competition as well as a social structure where economic and political power is well dispersed. But effective competition by no means implies effective dispersion. Competition can be on the side of the big firm. Thus, in the antitrust case against The Great Atlantic and Pacific Tea Co. in 1946, it was not monopoly power, but the successful and aggressive competitiveness of the big operation which was under attack.

There is an even more fundamental conflict of social objectives in antitrust enforcement. Competition is desired not for itself but as a sparkplug to progress and the driving force to efficiency. Progress and efficiency are the real objectives. Yet the size and organization of the firm best adapted to technological advance and operating efficiency may be incompatible with effective competition. In enforcing effective competition, the Court may be obliged to sacrifice the objectives for which competition exists.

Double-edged blade

The Court is aware that the blade of enforcement has two

Robert A. Solo is Assistant Professor of Economics, City College of New York.

edges and tries to follow the "rule of reason" in seeking to minimize possible sacrifices of real operating advantages. It does make some distinctions to assist it in applying its more or less sweet reasonableness. The Justices will be very tolerant in the case of a technically integrated organization. But they will ruthlessly dispose of price-fixing agreements, and they will, furthermore, strike even at a threat to competition inherent in financial ties—as was shown in its ruling against Du Pont because of its shareholding power over GM.

Competition is required, but not any kind of competition will do. Intense advertising in the cigarette industry, for example, was not deemed enough to override the noncompetitive elements. What kind of competition, then, does the Court demand?

Law cannot shift

The economists would answer, "Workable competition," a market situation that keeps prices down and productivity rising. Unfortunately, there is no agreement about the standards for measuring the workability. "And not only workable competition" the Court might add, "but also workable law," for the law cannot shift and vary with each particular circumstance. It must be clear, specific and the same for all.

Monopoly, economics tells us, is the power to control prices and output; and monopoly, the law tells us, is a crime. Yet monopoly power pervades the whole economy. Monopoly elements are everywhere, and total monopoly is nowhere. Before 1940, aluminum, produced only by the Aluminum Company of America, was considered the classic case of monopoly. But virgin aluminum competes directly with scrap aluminum and indirectly with all other light metals. Cellophane is controled by Du Pont, and Du Pont has sole power to set price and output policy. The District Court, however, considered the competition between Cellophane and other wrapping papers sufficient to relieve Du Pont of the onus of monopoly.

"Relevant market"

On the other hand, in its recent decision against Du Pont for its holding of GM shares, the defense argued that Du Pont ownership of GM stock was no significant threat to competition precisely because GM purchased only a minute fraction of the *total* output of paints and finishes produced by Du Pont and others. The Supreme Court decided otherwise, basing its argument on the "relevant market." Thus it held that although GM bought only a minute fraction of the total output of paints and finishes, the

relevant market concerned auto paints and finishes. The GM purchases, it ruled, constituted a sufficient share of this market to justify a decision against Du Pont in its position as owner of considerable GM stock.

Thus, increasingly fine evaluations must enter into the definition of market situations and possible monopoly. One might justifiably protest his confusion over the combination of refinement and change in the Court decisions.

What, then, is the present state of the antitrust law? In the last analysis, only the Court can speak for the Court. Nevertheless, a brief interpretation of postwar developments can be ventured.

Antitrust is one of the many categories of the law where wide discretion must be exercised not only by the Court but also by executive agencies. The Justice Department and the Federal Trade Commission have been allowed an ever-increasing measure of independence, and hence of responsibility by the Court since the New Deal days. Thus, we must, in the future, look more to executive policy and to Congressional pressure than to judicial interpretations of antitrust action.

The Court will support executive agencies in antitrust action even when prices and profits are "reasonable," provided that the absence of effective competition is clearly shown. Of course, the Court's decisions will be influenced by its appraisal of feasible alternatives to the market organization under attack and its evaluation of the disruptive effects of the remedies sought.

The Court will support an attack against buyer-seller vertical relationships and horizontal relationships—between buyers or between sellers—where such relationships narrow competitive activity. The action against buyer-seller arrangements is by no means new. The old "Standard Oil Trust" was also based on such agreements between refineries and the railroads who shipped their products.

The discretion of the executive agencies is particularly important in measures to minimize the *possibility* of future restraints on competition. We can assume that the Court will give them broad general support in severe preventive measures forbidding mergers, enjoining financial links and eliminating intercorporate shareholding. Here the question for the future will not be how much the Court will allow, but rather how far enforcement agencies, under Congressional and Executive pressure, will choose to go.

Controversial doctrine

The Court, recognizing that the modern corporation is frequently

a conglomerate of quasi-independent entities, has required some competition within the family. It has ordered that subsidiaries or commonly owned companies compete with one another and eschew joint-marketing or tie-in arrangements. The implications of this controversial "doctrine of intra-enterprise conspiracy" are still not clear.

The Court and the enforcement agencies will now differentiate between the merely competitive patent holder and one who uses extensive patents to establish control over an area of industrial activity or a broad avenue of possible technical advance. The Court has been increasingly willing to restrict the traditional patent privilege in order to maintain the principle of competition.

Enforcing agencies will, wherever possible, try to take the barb of criminality out of antitrust action. The consent decree has been used more and more often to achieve ends without ultimate means.

Mistake and disorder are inevitable in anything as difficult as antitrust action. But the greatest mistake would be timidity and inaction. Economic vigilance is an entirely acceptable price to pay for our nation's viability and balance. ■

Monopoly Glossary

Competition. The condition that exists in a market when there are an indeterminate number of traders all dealing in the same product and when no one trader can demand or offer a quantity sufficiently large to affect the market price. Also called *free, perfect* or *pure competition.*

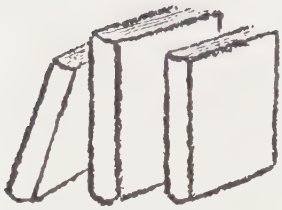
Monopoly. The single control of the supply of a product, permitting its sale at a price which is not affected by the action of its competitors.

Imperfect competition. The market situation existing when prices can be abnormally influenced by one or more traders because of certain advantages they have. Also called *monopolistic competition* when emphasis is on the monopolistic character of those advantages.

Oligopoly. The market condition when there are so few sellers that the supply offered by any one of them materially affects the market price.

Duopoly. The situation when only two producers offer identical or nearly identical products. There is some element of competition because the action of one producer can materially influence the other's price, but *duopoly* is more monopolistic than *oligopoly.*

Restraint of trade. Price fixing, the creation of a monopoly, or practices of a related nature which are designed to hamper the free exchange of goods and services, or have the effect of reducing competition.



READING REPORT

The Prospects of Nuclear Power and Technology. Gerald Wendt. 320 pp. Princeton, N. J.: D. Van Nostrand & Co., Inc. $6.00.

•Divided into two main sections, this volume is an illuminating discussion of the problems and prospects of peacetime atomic industry throughout the world. Military matters are not considered. The first section reviews in detail the present and prospective status of nuclear energy in terms of both industrial-economic factors and social consequences. The second section is devoted to the specific technology of atomic power. The author treats this difficult subject in a middle-of-the-road manner, avoiding the dangers of oversimplification and the forbidding effect of pedantic specialism.

* * *

Problems of Power in American Democracy. Arthur Kornhauser, ed. 239 pp. Detroit: Wayne State University Press. $5.00.

•This lecture series on power in a democracy was delivered in 1955 by social scientists at WSU. Sociologist Robert S. Lynd insists that power has had a bad character in the past but that democracy can reform it. A psychologist illustrates good and evil: baboons submit to brutal leaders; South American monkeys are almost anarchists, but chimpanzees make gentle leaders. Most of the speakers regard the chimpanzee power relationship as the ideal and we are left with a view of man leaping in the dark toward a father image with hairy arms. These conclusions are typical products of the lecturers' arbitrary premises and sloppy reasoning.

* * *

Individual Freedom and Governmental Restraints. Walter Gellhorn. 210 pp. Baton Rouge: Louisiana State University Press. $3.75.

•Mr. Gellhorn's book is made up of three parts: (1) Changing Attitudes Towards The Administrative Process; (2) Restraints On Book Reading; and (3) The Right To Make A Living as affected by occupational licensing. The first chapter introduces the book's theme with a discussion of the abuses and dangers to individual freedom which have arisen out of the "transfer of adjudicatory responsibilities from traditional courts to the as yet untraditionalized administrative agencies." Administrative agencies now assume control over such matters as censorship and fitness for citizenship, which were once the province of the courts. Mr. Gellhorn, Professor of Law at Columbia University and author of many books on civil liberties, knows his subject, and he writes with the restraint that ac-

companies wise judgment. He recognizes the paradox of freedom threatened by decisions designed to protect freedom. On the other hand, he shows us the difficulty of resolving this paradox. How best to *protect* and *encourage* freedom is a question for which there is no absolute answer.

* * *

Liberalism. Its Theory and Practice. Theodore Meyer Greene. 213 pp. Austin: University of Texas Press. $4.50.

•Professor Greene seeks light from foxfire in a swamp of watery meanings. He belabors the point that there can be a "faith" that is liberal with such insistence that he reinforces the reader's doubts. He insists, moreover, that this liberal faith can be as "clear and compelling as the *Communist Manifesto*," ignoring the fact that battle slogans always have the advantage because they are unreasonable. Greene believes that a reasonable adjustment can resolve all conflicts but it is a doubtful liberalism that arrogates to itself the right of judging what is reasonable. He is as much of an absolutist in his own way: "individuals have always been relatively ineffective when they persisted in playing a lone hand . . ." Would he define Christ and Caesar as joiners?

* * *

Farmer In A Business Suit. John Davis and Kenneth Hinshaw. 241 pp. New York: Simon and Schuster. $3.50.

•This is the story of the Yoeman family, a mythically "typical" American farm family, from the time of their Puritan ancestors to the present. The case-history approach necessarily results in a rather oversimplified analysis of the "farm problem." Nonetheless, the story of the Yoemans is a well-written dramatization of agriculture's transition from family farm to today's "agribusiness." The problems that have resulted from this as yet incomplete transition—threatened farm income, the inability of farmers to balance production with market demand—are well-presented. The authors conclude that these "maladjustments must be viewed as fundamental changes rather than temporary deviations from the normal." The solutions, they believe, rest with the "farmer in a business suit," as he learns to conduct farming as a business.

* * *

Jay Gould—His Business Career. Julius Grodinsky. 627 pp. Philadelphia: University of Pennsylvania Press. $10.00

Samuel Gompers—American Statesman. Florence C. Thorne. 175 pp. New York: Philosophical Library. $3.75.

•Both books present a mole's view of the cosmos. The Gould work is an unwearying compendium of certain facts in the rail buccaneer's business life, but the author, a finance professor, is incapable of giving his mountainous details meaningful order. He does draw the useful conclusion that Gould's manipulations resulted in lower rail rates and thus aided economic development; one would have been more grateful if this wisdom came in essay form. Miss Thorne, once a Gompers staff assistant, has succeeded in making a vital figure lifeless; she adds nothing to superior accounts of his life and

works. It is a pity: here are two men who contributed mightily to the making of our nation.

Economic Institutions and Human Welfare. John Maurice Clark. 285 pp. New York: Alfred A. Knopf. $5.50.

•Professor Clark, one of America's outstanding living economists, here addresses himself to the truly basic questions of his field, questions which, unfortunately, most high school and college classes in economics ignore completely. For, what is the impact of economic institutions on human welfare? Take the most important institution of all, the market. According to Prof. Clark, economists spend too much time studying the "laws" of the market and not nearly enough studying the human and community factors which underlie it. But the market, after all, is a social institution designed to meet human needs. And unless we know more about these needs, our efforts to improve the efficiency of the market will be limited, indeed. Although some of the essays which make up this book are repetitive, Prof. Clark's ideas should be particularly interesting to those who want to know what economists think about when they are not thinking about "pure" economics.

* * *

My Own Story. Bernard M. Baruch. 327 pp. New York: Henry Holt and Company. $5.00.

Mr. Baruch. The Man, the Myth, the Eighty Years. 695 pp. Boston: Houghton Mifflin Company. $7.50.

•"One could say that my whole career in Wall Street proved one long process of education in human nature. And as I moved into public life, I was to find that what I had learned about people from my speculator days applied equally to all other human affairs."

One comes across these words well near the last of Mr. Baruch's autobiography. They add no new detail to the altogether flattering portrait he has drawn of himself. It is not undeserved flattery, but a sincere portrayal of the qualities that made it possible for him to attain his uncontested reputation as a brilliant speculator and a sage elder statesman. By his own account, his success is derived from well-tempered self-discipline, enhanced by a classical education and a sturdy self-confidence.

Because Mr. Baruch's book is but the first of two volumes, Miss Coit's biography gives a more detailed picture of the man and a fuller description of the events and the experiences that have made his life from birth to the present. Nevertheless, it is explanatory rather than penetrating. Mr. Baruch's personal style reveals more of his character and temperament. Miss Coit is the better writer, and the more objective as chronicler. But the best judgment of the man comes from a friend who chose anonymity:

"He was great and he was small. He could be closefisted and perhaps the most generous man alive. He could find pleasure in Winston Churchill and in Billy Rose. He was naive and sophisticated, vain on little things, and humble on great ones. He was ruthless and he was tender—and greater than the sum of his parts." The gods become angry when you try to please them all, and so the Bernard M. Baruch myth has persisted. ■

Challenge Quiz

HOW WELL can you do with this true-false quiz? Test your ability to increase your knowledge through reading. Ten correct answers is Excellent; 9, Good; 8, Average. If you do the quiz *before* reading the articles, 6 correct answers is Good. Answers on page 70.

(1) Business and industry depend as much as ever on intuition in the selection of candidates for executive leadership.
True ☐ **False** ☐

(2) Our productive efficiency would prosper under a system of free market prices.
True ☐ **False** ☐

(3) Much of the consumer credit problem could be solved by the revision of archaic laws.
True ☐ **False** ☐

(4) Effective competition is often a sacrifice of the very objectives for which competition exists.
True ☐ **False** ☐

(5) The expansion of voluntary health programs has eliminated most of the problems of medical practice and treatment.
True ☐ **False** ☐

(6) Institutions that invest heavily have an unhealthy degree of power today.
True ☐ **False** ☐

(7) High labor costs prohibit the successful manufacture of small, inexpensive autos in the U.S.
True ☐ **False** ☐

(8) India is the second most industrialized country in Asia.
True ☐ **False** ☐

(9) Innovation is important, but quality and prices are always the most important aspects of competition.
True ☐ **False** ☐

(10) Economists are becoming more and more influential on the Washington scene.
True ☐ **False** ☐

(11) The first national states of Europe could not have survived without a middle class.
True ☐ **False** ☐

(12) Public taxes for government services have not affected the percentage of consumer income spent for other services.
True ☐ **False** ☐

DEPT. of BETTER MOUSETRAPS

Div. of Mousetraps and Pools: A mousetrap that dumps the victim into a pool of water by means of a trap-springing platform; it is self-setting and made of polyethylene . . . A completely automatic lightweight swimming pool heater that can be installed easily and quickly within the filtering system.

* * *

Car and Traveler: *A mileage computer that figures average miles per gallon as well as gas mileage at different driving speeds and with various grades of gasoline . . . A liquid car wash that cleans a car effortlessly without hosing or rinsing; it polishes chrome fittings to a bright luster, and only one pail of water is needed for the whole operation . . . A stainless steel and wood portable motel (40′ x 12′) that can be moved on a low-bed trailer; it contains two full-sized bedrooms, two complete modern bathrooms, complete air conditioning, Formica walls and vinyl tile floors.*

* * *

Fanciful and Otherwise: A stainless steel home soda fountain (5½′ x 27″) with compressor, instantaneous soda and water cooler, freezer and refrigerator compartments; it contains four syrup and four crushed fruit jars, soda and water draft arms, a sink, refuse can, drip trays and faucets . . . A new paste polish that restores tarnished metals to their original luster; above all, it makes a protective film so that the finish lasts for months . . . Flooring tiles of synthetic rubber that can withstand all degrees of temperature and outdoor weather.

* * *

Children's Corner: *A palm-sized microscope (about the size of a large fountain pen when opened) that is said to have a capacity equal to standard microscopes . . . For model builders and craftsmen, a prepared dry mixture of pulverized wood to be mixed in water; it resembles clay and can be modeled or molded and dried by air, sun or kiln.*

* * *

Attachments in General: An enamel and stainless steel potato peeling machine that operates by water from the cold water tap and washes potatoes at the same time that it peels them . . . Not a rake, but a "sweeper" to clean away autumn leaves; with this attachment on your garden hose, you simply walk across your lawn and leaves fly away . . . An automatic volume control for regulating radio and TV sets when a phone is in use . . . For lamplight control, a dimming device that dials the amount of light you want from any lamp; the control rests on the table or floor beside the lamp and can be plugged into the nearest outlet.

* * *

Write to CHALLENGE *magazine for additional information.* ■